Soaring to New Heights

CENTURION
ENERGY INTERNATIONAL INC.

2004 annual report

From our exploration and development base in North Africa, we have doubled our exit production rate in each of the last three years. We are poised to again double production to a rate of 45,000 boe per day by year-end 2005.

Corporate Profile

Centurion Energy International Inc. is a junior, international oil and gas exploration and development company headquartered in Calgary, Canada. The Company is engaged in oil and gas exploration and production activities in Egypt and Tunisia.

In eight years the Company has established a strong production base of over 20,000 boe per day, 85 percent of which is natural gas from Egypt.

Centurion recently embarked on an aggressive exploration and development drilling campaign to test exploration prospects on its substantial land base in Egypt and Tunisia and to further develop existing production leases.

Centurion trades on the Toronto Stock Exchange under the symbol CUX and the Alternative Investment Market of the London Stock Exchange (AIM) under the symbol CUX.L.

Contents

Annual General Meeting

The annual general meeting will be held on May 11, 2005 at 3:00pm in the Devonian Room at the Calgary Petroleum Club, 319-5th Avenue S.W., Calgary, Alberta. Shareholders and others interested in the affairs of the Company are encouraged to attend.

Production

Gas and condensate production from Egypt's El Wastani field began in April 2002. Average production that year tripled from 2001. In October 2003, the South El Manzala gas fields were placed on production, with a further increase in average and exit production rates.

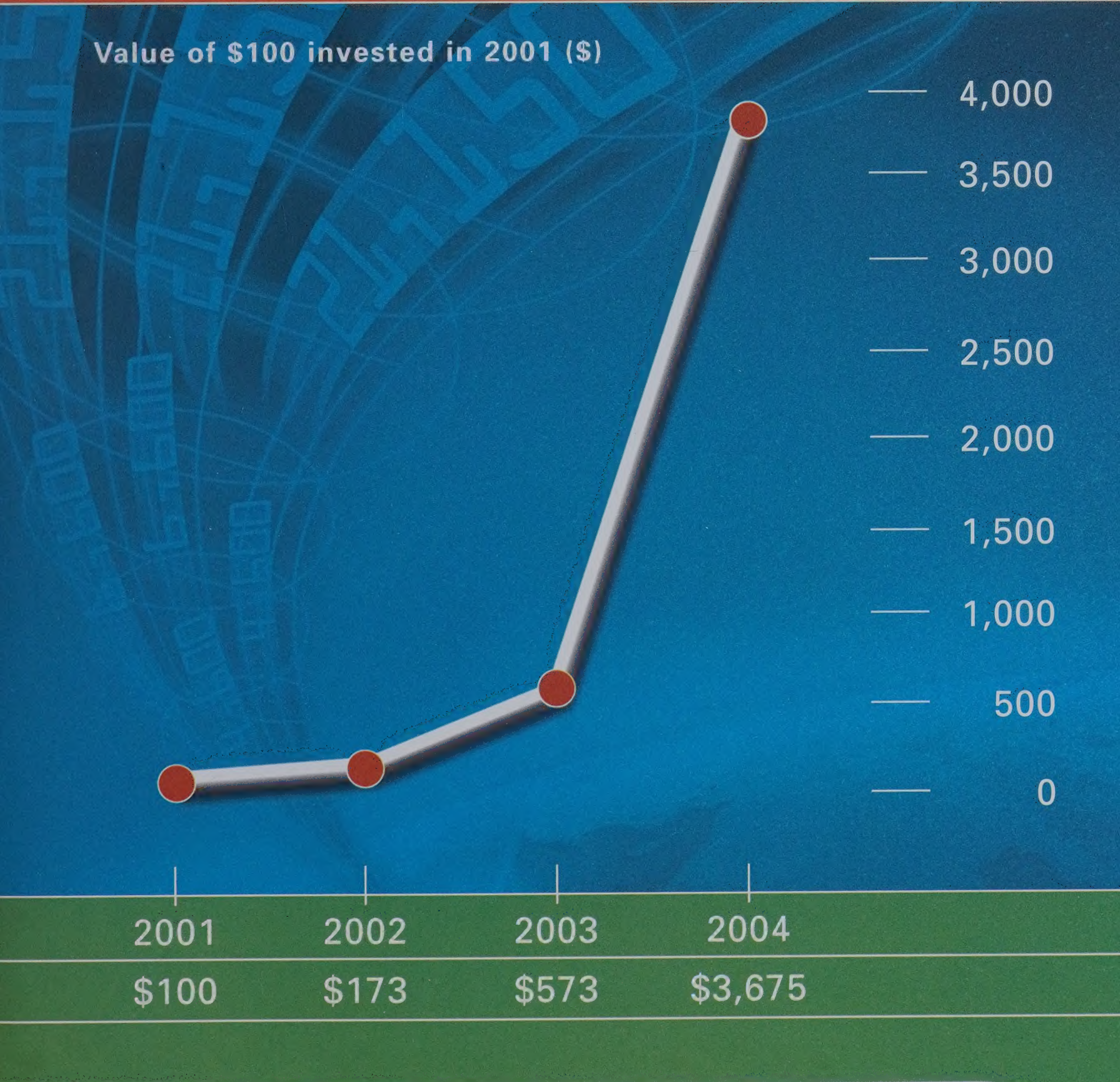
In December 2004, the El Wastani East #2 well was placed on production. The 2004 exit production reached 21,150 boe per day, including 19,250 boe per day from Egypt and 1,900 boe per day from Tunisia. Exit production rates have doubled three years in a row.

Financial and Operating Highlights

	2004	2003	2002
Financial			
($000s except per share amounts)			
Cash flow – continuing operations	**31,029**	10,732	6,341
Cash flow – discontinued operations	**11,036***	20,063	15,772
Cash flow – corporate total	**42,065***	30,795	22,113
Basic per share – continuing operations	**0.40**	0.17	0.10
Diluted per share – continuing operations	**0.38**	0.16	0.10
Basic per share – corporate total	**0.54***	0.48	0.35
Diluted per share – corporate total	**0.51***	0.46	0.35
Earnings – continuing operations	**10,505**	536	513
Earnings – discontinued operations	**2,895***	10,091	5,975
Earnings – corporate total	**13,400***	10,627	6,488
Basic per share – continuing operations	**0.13**	0.01	0.01
Diluted per share – continuing operations	**0.13**	0.01	0.01
Basic per share – corporate total	**0.17***	0.17	0.10
Diluted per share – corporate total	**0.16***	0.16	0.10
Production			
Average daily rate (boepd)			
Continuing operations	**9,854**	4,185	2,060
Discontinued operations	**1,621**	2,417	2,498
Corporate total	**11,475**	6,602	4,558
Annual production (mboe)			
Continuing operations	**3,605**	1,528	752
Discontinued operations	**594**	882	912
Corporate total	**4,199**	2,410	1,664

* Subsequent to year end, Centurion conditionally sold its Tunisian producing assets for $41.2 million plus working capital adjustments. Cash flow and earnings do not include the sales effect of 64,041 barrels of Tunisian oil that was inventoried at year end. If this inventory had been included in sales, cash flow would have increased by $2.3 million ($0.03 per share), and earnings would have increased by $1.6 million ($0.02 per share). The sale of the producing assets was effective January 1, 2005 and the incremental cash flow to Centurion of $2.3 million related to the crude oil inventory will be added as a purchase price adjustment upon closing of the sales agreement.

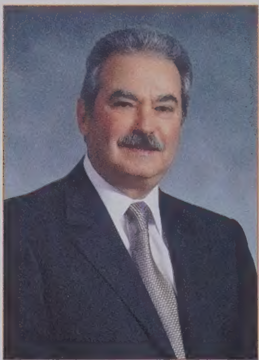
Note: Natural gas has been converted into barrels of oil equivalent at 6:1. Boe disclosed in this table may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mscf:1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.



Return on Investment

An investor in Centurion common shares has seen a handsome return in recent years. An individual who invested $100 in Centurion stock in 2001 when the share price was $0.40, would have $3,675.00 at December 31, 2004.

The return on investment for a share purchased at the start of 2004, when the share price was $2.29, was 539 percent in 2004, versus 29 percent for the S&P/TSX Composite Index. This stellar stock performance resulted in Centurion being the top Composite Index performer in 2004.



President's Letter

Centurion was the top performing stock on the Toronto Stock Exchange (TSX) in 2004, with a gain of $12.40 to close the year at $14.70 per share. Investors received a total return of 539 percent. In 2005, Centurion expects to set another production record while continuing to explore for large reserve targets in both Egypt and Tunisia.

Q: Centurion has grown production significantly over the last three years. What is the magnitude of that growth and what is the split between your main areas of focus?

:A We doubled our production in 2002, 2003 and again in 2004 when we exited the year at over 21,000 boe per day. The largest share of our production, over 19,000 boe per day, was from Egypt, with the balance of approximately 2,000 boe per day from our operations in Tunisia. It has been a very rewarding and exciting few years for Centurion, and we have aggressive growth targets for 2005.

This 2004 growth was accompanied by strong cash flow of $0.51 per share and earnings of $0.16 per share. Our balance sheet is strong, including $60 million in working capital.

Q: What magnitude of production growth can be expected in 2005?

:A We expect to double our production once again. An important development last year was that EGAS (the Egyptian National Gas Company) increased Centurion's contracted volumes from 47 mmscf per day to 250 mmscf per day. Our natural gas production, which makes up 85 percent of the corporate production base, was roughly 100 mmscf per day at year-end 2004. By mid-2005, we anticipate daily natural gas production reaching 150 mmscf per day, then rising to 250 mmscf per day at year-end, or approximately 45,000 boe per day, including liquids production. That growth is based on drilling in our two development leases and does not take into account the potential of exploration programs in other areas.

Senior Management Team

Seated left to right: Keith Howells, General Manager, Tunisia; Said Arrata, President and C.E.O.; Hany Elsharkawi, General Manager, Egypt

Standing left to right: Tony Anton, Senior Vice President and C.O.O.; Barry Swan, Senior Vice President and C.F.O.; Mike Zayat, Vice President, Exploration and Business Development

Q: **Egypt has been known more for its oil production than for natural gas. Why is Egypt the main focus of your operations and why are you concentrating on such aggressive natural gas drilling?**

:A Egypt is a ready-made market; they will soon need all the natural gas they can access as the country plans to substantially increase exports of liquefied natural gas (LNG). Egypt produces and uses domestically 3.5 bcf per day of natural gas, but is planning to export an additional 5.0 bcf per day in the coming three years. One LNG plant came on-stream in December, two more plants are planned for this year, and an additional three plants over 2006 and 2007. Additionally, a pipeline is being planned from Egypt to Turkey through Jordan. All of those factors are extremely important and we are in a position to be a major supplier of natural gas for the country's expanding market.

Q: Centurion embarked on an aggressive drilling program in 2004. What were the results?

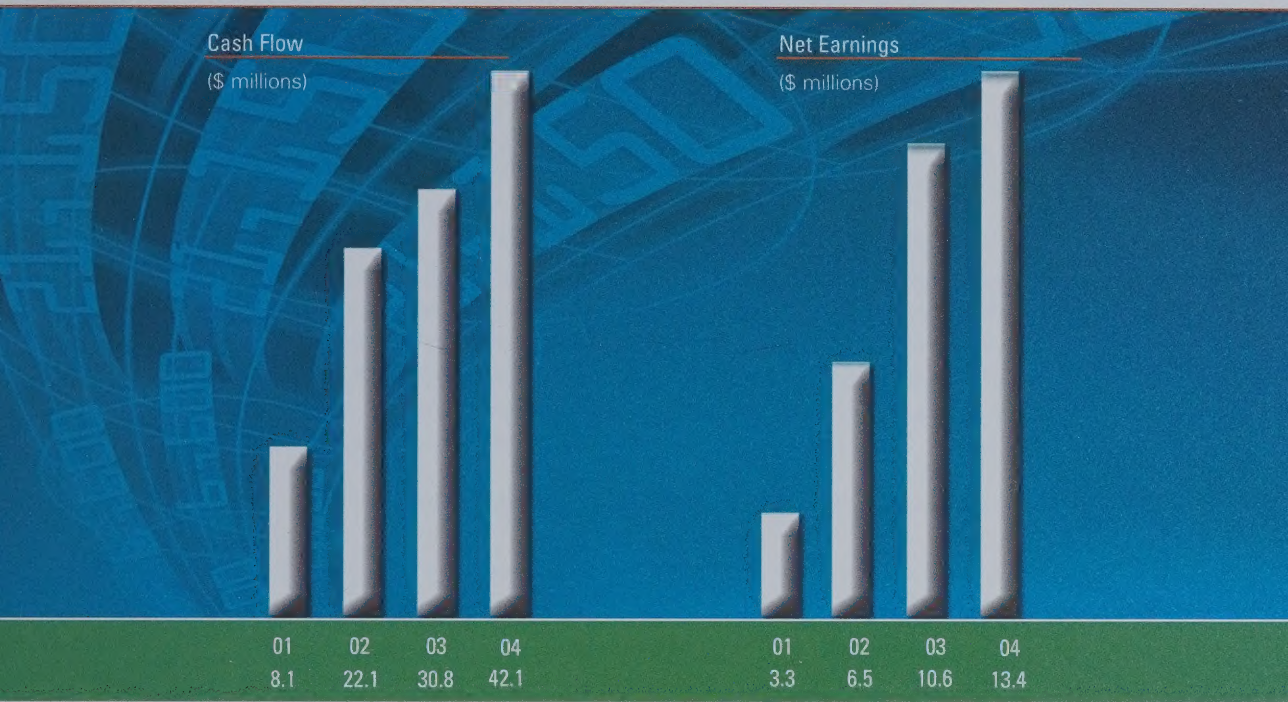
:A Our main production base and immediate center of growth is from two development leases in the Northern Nile Delta: El Wastani and South El Manzala. Early in 2004 our aggressive drilling campaign resulted in a major natural gas discovery – El Wastani #3. The well commenced production in July at 10 mmscf per day and 300 barrels per day of condensate from only one of the two productive zones that we encountered. El Wastani East 2 spudded in October and was on production in December 2004 at 30 mmscf per day and over 1,500 barrels per day of condensate and natural gas liquids. These numbers are a strong indication of how prolific wells can be in the Nile Delta. Our drilling at South El Manzala was equally successful with three wells drilled and on production in December. We plan to drill another 14 wells on the two production leases during 2005, which we anticipate will take us to our target year-end exit rate.

Q: How do you account for your high rate of drilling success in Egypt?

:A We have a good understanding of the geology of the area. At first, our drilling was based on 2-D seismic, and we had 80 percent success. Since acquiring 3-D seismic, we have been 100 percent successful drilling the first five wells in our program. That does not mean that we will always be successful, but it points to our knowledge of the area. Recent surveys of drilling success in Egypt show that Centurion came in second in 2002 and 2003. I think that our 2004 results will probably surpass that number.

Q: You acquired two large exploration blocks surrounding your production leases. What impact will that have on Centurion?

:A An important development during the year was the acquisition of 800,000 acres of land surrounding our existing leases at El Wastani and South Manzala. The two blocks, West Manzala and West Qantara, are on-trend with our previous discoveries, so we are very excited about the prospectivity of the acreage. We have identified 38 exploration leads and prospects on 2-D seismic. We have commenced acquisition of 3-D seismic in February 2005, and we hope that these new exploration blocks will open up a new opportunity for us.



Q: Tunisia is your other focus area. What has been happening there and what is the potential for growth?

:A Tunisia is not our main focus right now. It was very good to us in the late 1990s when we started our operations in the region, but we have not had the success that we anticipated. As a result, we have signed an agreement to sell our non-core producing assets in Tunisia and retained the exploration upside.

In 2004, we farmed out one block, Mellita, to PetroCanada. Two wells are planned in 2005, depending on rig availability, including one onshore well which should spud during the second quarter of 2005. A second offshore well is planned for later in the year. We also anticipate drilling a high-impact play – a deep Triassic well on our Ezzaouia concession. This is a large prospect, which has been identified on 3-D seismic, that has the potential to yield several trillion cubic feet of natural gas and associated liquids. We hope to drill this exciting prospect later in 2005.

Q: There has been a resurgence of Canadian companies operating overseas. What sets Centurion apart? Do you have a competitive advantage?

:A Apart from the technical side, it takes a combination of attributes to be successful in the international arena. All our senior staff have international experience; we know the area well and understand the culture. Developing relationships is extremely important, including personal relationships. We also believe that we are more aggressive in initiating and executing projects efficiently and safely. Centurion can complete projects in two years that usually take five years to accomplish. We are extremely aggressive.

Q: What is the biggest challenge for Centurion in continuing to deliver strong production growth?

:A The biggest challenge now is not discoveries, but the lack of available services and materials. The price of oil is at an all-time high and as a result, companies are busy and costs are rising. However, we are adding facilities to achieve our production target in the coming year, and we have two drilling rigs on contract until the end of 2005.

Q: What are your plans for 2005 and into 2006 in both Egypt and Tunisia?

:A We are part-way through an aggressive drilling program to produce 250 mmscf per day of natural gas by the end of 2005, which will be quite a feat. On our production leases at El Wastani and South Manzala, we anticipate drilling 14 wells in 2005, five of which will be exploration wells.

On our two new exploration concessions, West Manzala and West Qantara, we have started to acquire 3-D seismic with a drilling program to be developed following interpretation. We believe these lands are highly prospective with the potential to yield several trillion cubic feet of natural gas reserves.

Additional exploration is underway at West Gharib, a non-operated concession containing the Hana oil field, in which we hold a 30 percent interest. The first two wells in a three-well program have been drilled. Testing results on both wells are pending.

Another exploration play is unfolding on our 5.6 million acre southern block, Block 2 Ganope. We will acquire seismic in 2005 which will be followed by interpretation and possible drilling in 2006. This highly prospective block is part of the Kom Ombo Rift Basin and analogous to Sudan's prolific Muglad Basin.

In Tunisia, the focus of drilling will be the Mellita block, with one onshore well and one offshore, through our farm-out to PetroCanada. We also anticipate drilling one of our most exciting prospects, a Triassic well at Ezzaouia, which will target sizeable natural gas reserves and liquids.

Q: What is Centurion's capital budget for 2005, and how will it be financed?

:A We have a capital budget of US$144 million in 2005, with US$135 million allocated to drilling, new facilities and pipelines. Our funding requirements will be met through strong working capital, cash flow and an unused line of credit.

Q:

Where do you see Centurion in the next three to five years?

:A

We have the potential to become one of the leading producers of natural gas and liquids in Egypt. It is conceivable that we could be producing 500-600 mmscf per day in the next two to three years, or approximately 100,000 boe per day. That would give Centurion a substantial presence in the Egyptian market.

In the next five years, we can see production exceeding 100,000 boe per day if we set our mind to it. I think Centurion is an example and model of what a Canadian company can do when it pursues larger opportunities.

Q:

An accomplishment of this magnitude takes the considerable skills of many people. Centurion's management team has been together for much of the journey. Who are some of the other people that have been involved along the way?

:A

Obviously, such an accomplishment cannot be achieved without a cohesive and determined team effort with a desire to succeed. Other individuals and organizations added value at the onset of our efforts. Mr. Ahmed Rostom helped establish our Cairo offices. Mr. Ken Fitzgerald, tenaciously, with our management team, completed the first privately-owned power generation plant in Tunisia and helped to establish the basis for our systems and procedures within the organization. Mr. Carlito Abad is instrumental in leading our facilities task force.

I would like to thank our Board of Directors for their wisdom and guidance, and support of management in pursuit of the corporate vision. I would also like to herald the loyalty and perseverance of our management team and our in-country personnel in Egypt and Tunisia, as well as the tremendous support of our employees in the Calgary head office.

Most important, I wish to thank our longstanding shareholders for their continued loyalty and would like to welcome new investors to Centurion. We appreciate your support and are very pleased that our ongoing efforts during 2004 resulted in a significant increase in shareholder value.

Said S. Arrata, P.Eng
President and Chief Executive Officer
March 16, 2005

Exploration and Operations Review

LOCATION	PRODUCTION 2004 AVERAGE (BOEPD)	PRODUCTION 2004 EXIT (BOEPD)	PROVED & PROBABLE RESERVES (mmboe)	GAS/OIL & NGLs	% WORKING INTEREST
Egypt					
El Wastani	3,200	10,500	37.8	Gas/Cond.	100
South El Manzala	6,140	8,200	6.8	Gas	100
Hana	514	550	0.9	Oil	30
SUBTOTAL EGYPT	9,854	19,250	45.5	–	–
Tunisia					
Al Manzah	160	–	–	Oil	75
Ezzaouia	446	610	2.0	Oil/Gas	31.4
El Biban	969	1,250	3.8	Oil/Gas	73.8
Robbana	46	40	0.1	Oil	80
SUBTOTAL TUNISIA	1,621	1,900	5.9	–	–
COMPANY TOTAL	11,475	21,150	51.4	–	–

Operations and Exploration Department
Seated left to right: Robert Macaulay, Tony Anton
Standing left to right: Brian Davies, Teryl Hemmelgarn and Mike Zayat

Highlights

- Increased total Company production to a record 21,150 boe per day at year-end 2004.
- Acquired 250 square kilometres of 3-D seismic coverage in El Wastani and South El Manzala development leases.
- Awarded rights to 800,000 acres on the West Manzala and West Qantara blocks.
- Drilled 5 wells in Egypt with 100 percent success. Drilling results to date confirm the accuracy of Centurion's seismic interpretation
- Installed new separation, dehydration and compression facilities in the Nile Delta leases and a new gas separation and filtration system at the El Biban field in Tunisia.
- Increased year-end reserves by 52 percent after replacing 2004 production.
- Reduced operating expenses by 41 percent to $1.51 per boe in 2004 from $2.57 per boe in 2003.
- Maintained a safety-related zero lost-time rating due to no accidents in all corporate operations in Egypt and Tunisia.

Focus: Egypt

Cairo Management Team
Left to right: Raouf Tawfik, Hany Elsharkawi, Refaat Zaki, Hamdy Abdel Sattar

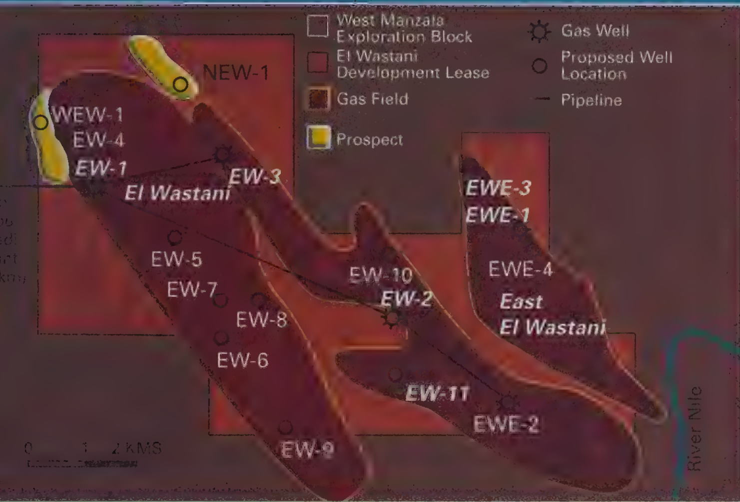
El Manzala Development Leases

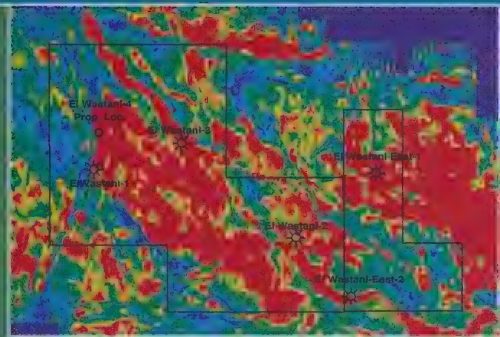
3-D Seismic Program

During 2004, Centurion successfully completed the acquisition and processing of 250 square kilometres of 3-D seismic over the El Wastani/El Wastani East and South El Manzala development leases. The data quality is excellent and has resulted in a better definition of the extension of the existing hydrocarbon pools and the identification of new gas and condensate accumulations within the development leases. Centurion drilled and completed five wells in 2004 with 100 percent success and has correlated each well to the seismic interpretation. A further 14-well program is planned for 2005. The wells were located on areas of high seismic amplitude, a direct indicator of gas.

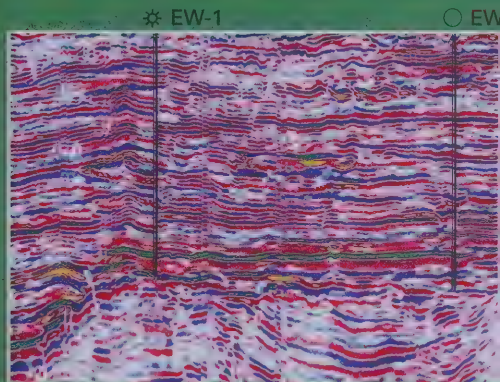
El Wastani Gas Field

Drilling activities in the El Wastani/El Wastani East gas and condensate field continued in 2004. The El Wastani-3 development well was drilled and completed in the second quarter, encountering gas reserves in the Upper and Lower Abu Madi reservoirs. The reservoirs were tested at a combined rate of 26 mmscf per day and 725 barrels per day of condensate. The well was put on production in July 2004 at a stabilized rate of 10 mmscf per day and 300 barrels per day of condensate. The well confirmed Centurion's 3-D interpretation and extended the Lower Abu Madi pool to the east and south. The well also discovered a new pay zone in the Upper Abu Madi reservoirs.





Above: *Lower Abu Madi amplitude time slice map*



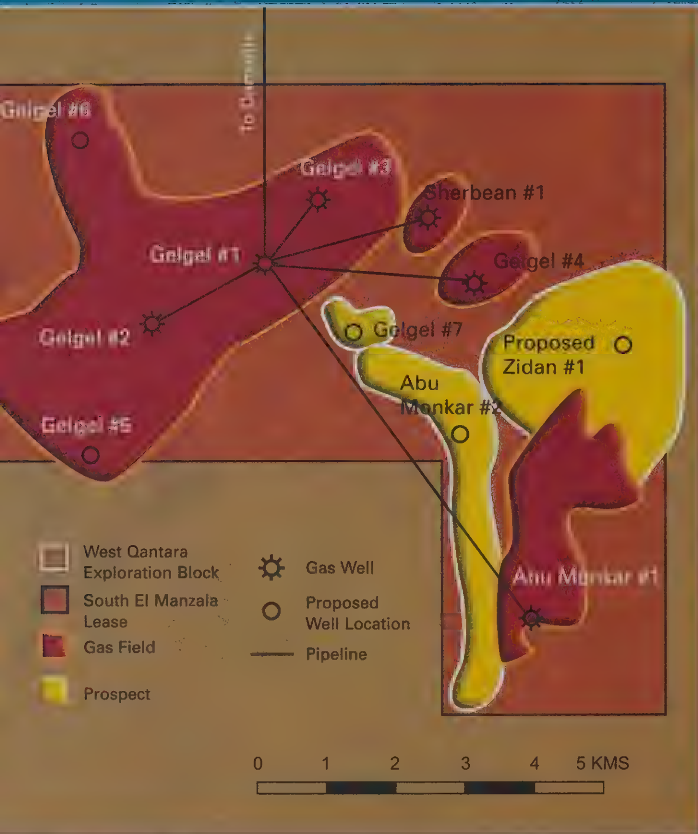
Above: *N-S seismic section with amplitude*

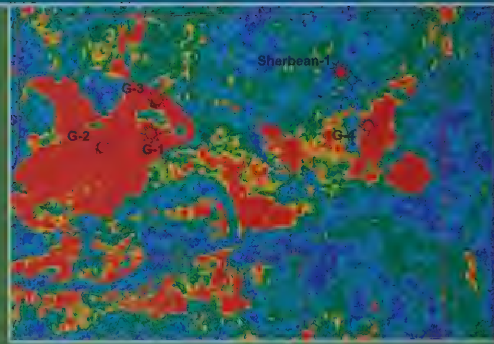
Left: *El Wastani separation facilities*

The El Wastani East-2 discovery was completed in November 2004 and tested gas at a combined rate of 41 mmscf per day and 900 barrels per day of condensate. The well encountered four productive zones, which significantly added to the Company's hydrocarbon reserves and further extended the Upper and Lower Abu Madi gas pools. El Wastani-4 was spudded on December 31, 2004 and is targeting reserves in the Abu Madi reservoirs.

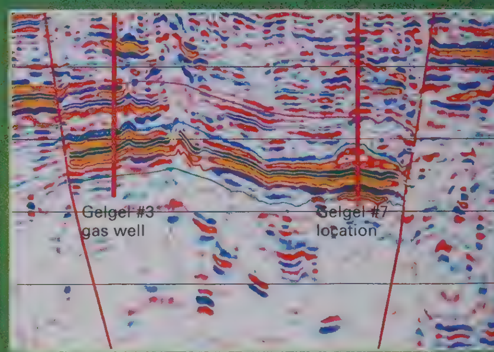
Total production from the El Wastani/El Wastani East development lease reached 50 mmscf per day and 1,545 barrels per day of condensate and 888 barrels per day of LPG at year end. Plans are underway to increase the field's production rate to 150 mmscf per day and 7,500 barrels per day of condensate and natural gas liquids by the end of 2005. Accordingly, Centurion has initiated the engineering and procurement work for the construction of a Company-owned and operated gas plant in the El Wastani area to accommodate the projected production levels.

The proposed gas plant will process the raw gas produced from the El Wastani and El Wastani East field and the produced gas, condensate and LPG will be directly delivered to the Egyptian National Grid. A new gas sales agreement has been successfully negotiated with E-Gas to secure the sales of the production from the fields for a period of 14 years.





Above: *El Wastani amplitude time slice map*



Above: *N-S seismic section with amplitude*

South El Manzala Gas Fields

Gelgel-2, which spudded in August 2004, was the first well drilled in the 2004 program for the South El Manzala development lease. This was followed by the drilling and completion of Gelgel-3 and Gelgel-4. All three wells were successful and tested at a combined rate of 59 mmscf per day. By the end of 2004 all three wells were put on production and the South El Manzala field production rate was increased to 50 mmscf per day.

The 3-D seismic program resulted in the identification of several development locations and new prospects which will be tested during the 2005 drilling campaign.

Meanwhile, Centurion completed the first stage of the facilities upgrade at the South El Manzala field and has increased the production capacity to 60 mmscf per day. The second stage of the facilities upgrade will include the installation of additional inlet separation, compression and dehydration facilities, and the building of a new 12-inch diameter, 34-kilometre-long pipeline to deliver 100 mmscf per day of gas to Damietta.

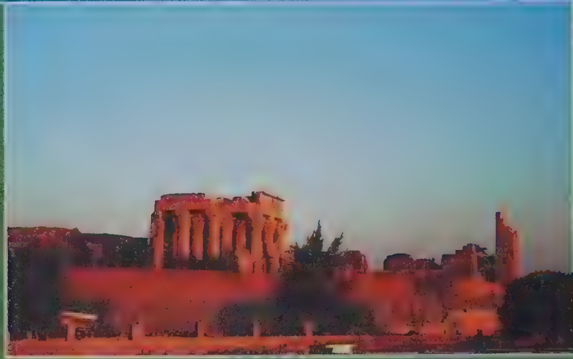
Development drilling on the El Wastani and South El Manzala development leases and expansion and construction of production facilities will allow gas production to increase to 250 mmscf per day.

West Manzala and West Qantara

Egypt Exploration Blocks

Centurion was awarded two exploration blocks in the Nile Delta: West Manzala and West Qantara, which cover 800,000 acres on-trend with, and surrounding the Company's existing El Wastani and South Manzala development leases. Centurion has a 75 percent working interest in the two awarded blocks.

Preliminary exploration work has commenced on these blocks. A 3-D seismic program was initiated in February 2005. Centurion has already targeted 38 exploration prospects based on 2-D seismic data interpretation of the area. Centurion and its partner will drill a minimum of five wells in these new concessions in the next two years.



Above: *Kom Ombo temple, 332 BC, Nubia, Upper Egypt*

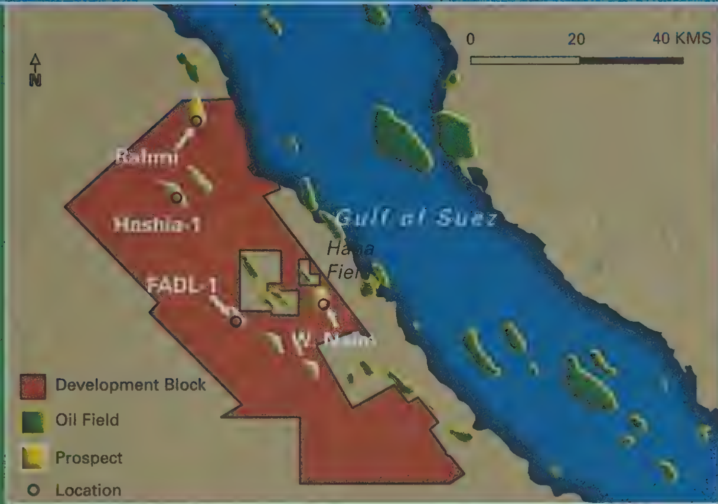
Above: *On the Nile, Upper Egypt*

Kom Ombo Concession

The Egyptian Parliament ratified the Southern Egypt Block 2 during the first quarter of 2004. The block covers approximately 5.6 million acres in the Kom Ombo Rift Basin. The geology in this basin is analogous to the prolific Muglad Basin in southern Sudan and the Red Sea, which are both rift basins.

Centurion has committed to spend US$2.0 million in the first phase of exploration. Plans are to reprocess 2-D seismic, conduct additional geological and geochemical studies, drill one exploration well and acquire additional 2-D seismic. Seismic reprocessing and geological field work are planned for 2005.

Above: Edfu Temple, 57 BC, Nubia, Upper Egypt



Above: *Ras Mohammed National Park*

Above: *Hana field battery facilities*

West Gharib Concession

Hana Field

Centurion holds a 30 percent working interest in the onshore Hana oil field located in the Gulf of Suez area. Continuous efforts to enhance field productivity have resulted in boosting Centurion's share of gross production to 550 barrels of oil per day at year-end 2004 with no additional development wells.

Exploration

Centurion has identified several new prospects and a three well exploration drilling program has been approved by the partners. Fadl-1 exploration well was spudded in December 2004 and is the first well in the program. The well was drilled to a total depth of 5,840 feet, targeting the upper and lower Rudeis sandstone reservoirs that are similar to the nearby West Bakr oil fields. The well is currently undergoing testing operations. Hoshia-1 has been drilled and is awaiting testing.

Tunisian Management Team
Sitting: Keith Howells, Frida Jemail
Standing left to right: Lorne Leclerc, Karim Gaoua, Mokhtar Oueslati

Production

Centurion produces oil and gas from four fields in Tunisia. A total of 424,800 barrels of oil were produced during the year, which netted Centurion average daily production of 1,161 barrels per day. In addition, Centurion produced approximately 460 boe per day of natural gas from the El Biban and Ezzaouia fields, most of which was marketed to the SEEB power plant as feed gas.

2004 Drilling Activity

Centurion drilled four wells in 2004, one on the Robbana Concession and three in the Ezzaouia Concession. Ezzaouia 15 was the only success, testing 1,500 barrels per day from a 17-metre pay section. It was tied in and is currently producing 875 barrels of light gravity oil plus 500 mscf per day of natural gas. Centurion is evaluating Ezzaouia 14 and 16 for possible re-entry. The Company is also carrying out a feasibility study for waterflooding the Ezzaouia field.

Sale of Tunisian Producing Properties

Subsequent to year end,Centurion made a strategic decision to sell its mature producing properties in Tunisia in order to focus on higher impact opportunities. The Company has excluded the Mellita Permit from the sale and has retained the right to participate for 50 percent of its former working interest in the Triassic prospects underlying the Ezzaouia and El Biban fields.

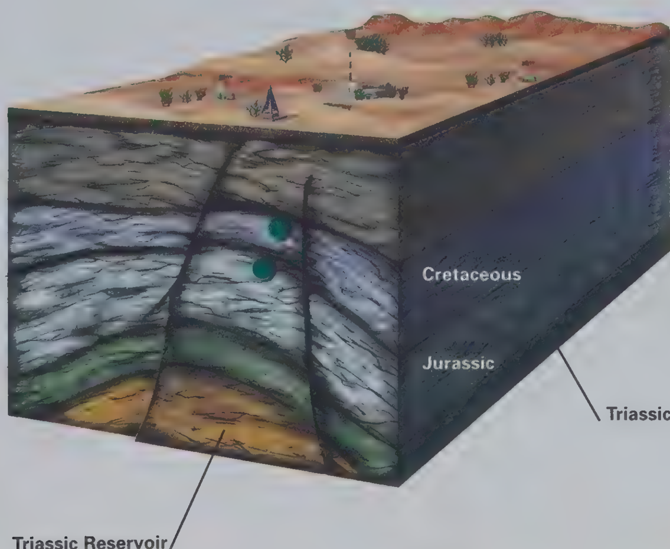
Mellita Permit

The Mellita Permit, surrounding Djerba Island, presents another world-class opportunity. The Permit is essentially an unexplored Cretaceous basin. The closest well, Ajim, was a dry hole drilled on the flank of the basin. However, it had oil shows throughout the Cretaceous section. We have now completed seismic interpretation and have identified six prospects. The first well to be drilled will be West Djerba, an onshore location which is expected to spud in early April, 2005.

The first offshore prospect to be drilled will be Amira. The operator continues its efforts to locate a suitable jack-up drilling rig.

Ezzaouia Triassic

A potential world-class opportunity exists in the Deep Triassic. Centurion has conducted a thorough analysis of nearby wells to develop a detailed cost estimate. We are also contacting drilling contractors to determine the 2005 rig availability for this 5,000-metre prospect. Centurion currently has production from the Cretaceous and Jurassic zones.



Above: *Tunisian countryside*

Above: *Kom Ombo Temple, 332 BC, Nubia, Upper Egypt*

Business Development and Exploration

Centurion had a banner year in 2004. The Company achieved record production, exiting the year at 21,150 boe per day. Our undeveloped land inventory increased with the acquisition of a prized 800,000 acres in Egypt – the West Manzala and West Qantara concessions. Centurion's prospect inventory has grown significantly as new exploration and development opportunities resulted from the seismic and acreage acquisitions. The 2005 and 2006 drilling program will test some of these opportunities.

Egypt

In Egypt, Centurion plans 3-D seismic acquisition for the West Manzala and West Qantara concessions to follow up the discoveries in the El Wastani and South El Manzala development leases and to firm up new prospects. A drilling program to test the concession potential is planned for the second half of 2005.

Centurion has begun geological and geophysical activities on the Kom Ombo Block. We are encouraged as several prospects and potential leads with significant potential have been identified.

Tunisia

In Tunisia, Centurion and its partner, PetroCanada, will drill and test two exciting prospects in 2005 – one offshore and the other onshore. If successful, the partnership will have significant follow-up potential on the acreage.

We expect to participate in the drilling of the Ezzaouia multi-tcf prospect in 2005 as there is now greater rig availability. With success at Ezzaouia, exploration will move offshore to test the Triassic at El Biban.

Centurion growth plans call for gaining entry to a third country. We have participated in a number of international bid rounds and expect results shortly.

Operations Statistical Review

Undeveloped Land

Egypt

Centurion currently has 6.4 million net acres held in Egypt. The Kom Ombo Concession was ratified by Parliament in May 2004. Centurion acquired two new permits in Egypt during 2004 for an additional 800,000 (600,000 net) acres. The new concessions, West Manzala and West Qantara, are located in the gas-prone Nile Delta region of Northern Egypt and surround our development leases.

Tunisia

A one-year extension to the initial exploration phase of the Mellita Permit was granted by the Licensing Authority. This permit, which expires in early September 2005, requires that two wells be drilled by this time.

Centurion Land Holdings

As of December 31, 2004			
Property/Type	Working Interest	Gross Acres	Net Acres
Egypt			
South El Manzala – Development Lease	100%	16,055	16,055
El Wastani – Development Lease	100%	10,053	10,053
El Wastani East – Development Lease	100%	2,964	2,964
Hana – Development Lease	30%	2,371	711
Kom Ombo Block 2 – Concession	100%	5,654,727	5,654,727
West Gharib – Concession	30%	350,178	105,053
West Manzala – Concession	75%	476,216	357,162
West Qantara – Concession	75%	319,618	239,714
Egypt Subtotal		6,832,182	6,386,439
Tunisia			
Belli – Concession	50.0%	10,868	5,434
Al Manzah – Concession	75.0%	6,916	5,187
El Biban – Concession	73.8%	56,316	41,546
Ezzaouia – Concession	31.4%	9,880	3,101
Mellita – Exploration Permit	27.5%	845,728	116,288
Robbana – Concession	80.0%	11,856	9,485
Tunisia Subtotal		941,564	181,041
Company Total		7,773,746	6,567,480

Reserves Summary

Constant Prices

As at December 31, 2004	Remaining Reserves				Cumulative Cash Flow (AIT) ($mm)*				
	Oil	Gas	Condensate & LPG	Combined	Discounted at:				
	(mmstb)	(bcf)	(mmbbls)	(mmboe**)	0%	5%	10%	15%	20%
Proved developed	1.73	94.18	3.20	20.62	174.2	155.1	139.5	126.4	115.3
Proved undeveloped	1.09	44.82	2.30	10.86	75.8	60.2	48.1	38.6	31.1
Total proved	2.82	139.00	5.50	31.48	250.0	215.3	187.6	165.0	146.4
Probable	1.44	90.50	3.34	19.87	116.0	91.0	71.0	54.9	42.0
Proved plus probable	4.26	229.50	8.84	51.35	366.0	306.3	258.5	219.9	188.4

As evaluated by Ryder Scott Consultants, report effective December 31, 2004

* The cash flow amounts were determined on an after-tax basis using a constant price of US$40.47 Brent per barrel, the price as of December 31, 2004. The prices used for gas in Tunisia and in Egypt were based on the fixed terms of their respective gas purchase contracts. The corresponding average gas price over the life of reserves is approximately US$0.39/mscf and US$2.65/mscf respectively.

** boe – barrels of oil equivalent, gas converted at 6 mscf = 1 barrel.

Management's Discussion and Analysis

The following discussion and analysis is a review of operations, current financial position and outlook for Centurion Energy International Inc. (Centurion or the Company) and should be read in conjunction with the audited consolidated financial statements and related notes. This Management's Discussion and Analysis is dated March 17, 2005.

Highlights

2004 was another successful year for Centurion with several milestones reached. Exit production rates doubled for the third consecutive year to 21,150 boe per day. Current production is 20,600 boe per day excluding the Tunisian production that is being sold. Proved and probable reserves increased to 51 million boe from 38 million boe after replacing 4.2 million boe of production. Of this increase, 94 percent was in the proved category exclusively from the Nile Delta Development Leases in Egypt. At December 31, 2004 reserves per weighted average share outstanding increased by 9 percent to 0.62 boe per share even though the weighted average number of shares increased by 23 percent.

Centurion also achieved record levels of cash flow ($42.1 million) and earnings ($13.4 million). The Company drilled five wells on its Development Leases in Egypt's Nile Delta in 2004 with 100 percent success. Following the drilling successes on the El Wastani and South El Manzala Development Leases, the Company negotiated an increase in the existing gas purchase agreements with the Egyptian Gas Company from 47 mmscf per day to 250 mmscf per day. Centurion subsequently mobilized two rigs to start an active drilling program, initiated the construction of a 100 percent owned gas processing plant and commenced the twinning of its South El Manzala gas pipeline. These initiatives will expedite delivery of gas at the 250 mmscf per day production level and will increase the amount of associated liquids that can be recovered for Centurion's account and sold at market prices in conjunction with the gas sales.

In 2004, Centurion continued to focus on Egyptian exploration based on the level of success achieved in the Nile Delta to date. In early 2004, Centurion and its 25 percent partner were the successful bidders on two new exploration blocks: West Manzala and West Qantara, which encompass 800,000 acres surrounding Centurion's existing development leases. Centurion already has substantial 2-D seismic data on the new concessions, but recently commenced a 2,000 square kilometre 3-D seismic program to update and further define the drilling targets. Centurion expects to continue its active drilling program in the Nile Delta for several years.

Sale of Tunisian Producing Assets

As part of a shift in focus to higher-impact exploration and development in Egypt, Centurion has entered into a conditional agreement to sell its current producing assets in Tunisia subsequent to year-end for $41.2 million plus working capital adjustments. Cash flow from the Company's Tunisian operations has provided a basis for growth in assets and production; however, the mature assets and the related overhead are no longer considered core to Centurion's future growth. The Company drilled four wells in Tunisia during 2004, resulting in one producing oil well. The Company still sees exploration upside in Tunisia and has retained its interest in the Melitta Permit in Tunisia which was farmed out to PetroCanada, and has retained the right to participate in any drilling carried out on the Ezzaouia and El Biban concessions to test potential Triassic reservoirs. Proceeds received on the sale will be used to fund exploration and development activities in Egypt and for other higher-impact foreign opportunities.

Centurion is in its strongest financial position ever. The Company added to its strong working capital position by completing two financings that raised approximately $25 million in August 2004 and another $40 million in January 2005.

Upon the completion of the conditional sale of the Tunisian assets, Centurion will have working capital in excess of $100 million. This strong working capital position, augmented by 2005 cash flow from Egyptian operations, provides more than enough funding to meet projected 2005 capital expenditures.

Record Cash Flow and Earnings

Cash flow and earnings for 2004 also reached record levels and would have been even higher except for an exclusion of revenue in the 2004 accounting period for 64,041 barrels of oil production in Tunisia that was not sold until after year end. Cash flow for 2004 was $42.1 million ($0.54 per share basic, $0.51per share diluted) and earnings were $13.4 million ($0.17 per share basic, $0.16 per share diluted). Including the recognition of the sale of 2004 production inventoried at year end would have increased cash flow by $2.3 million ($0.03 per share) and earnings by $1.6 million ($0.02 per share).

Performance Indicators	2004	2003	2002
Financial			
($000s except per share amounts)			
Cash flow – continuing operations	31,029	10,732	6,341
Cash flow – discontinued operations	11,036*	20,063	15,772
Cash flow – corporate total	42,065*	30,795	22,113
Basic per share – continuing operations	0.40	0.17	0.10
Diluted per share – continuing operations	0.38	0.16	0.10
Basic per share – corporate total	0.54*	0.48	0.35
Diluted per share – corporate total	0.51*	0.46	0.35
Earnings – continuing operations	10,505	536	513
Earnings – discontinued operations	2,895*	10,091	5,975
Earnings – corporate total	13,400*	10,627	6,488
Basic per share – continuing operations	0.13	0.01	0.01
Diluted per share – continuing operations	0.13	0.01	0.01
Basic per share – corporate total	0.17*	0.17	0.10
Diluted per share – corporate total	0.16*	0.16	0.10
Net revenue – continuing operations	54,796	24,425	13,566
Net revenue – corporate total*	72,693	52,104	34,365
Total assets	180,657	148,744	142,444
Total long-term financial liabilities	34,735	33,677	37,918
Production			
Average daily rate (boepd)			
Continuing operations	9,854	4,185	2,060
Discontinued operations	1,621	2,417	2,498
Corporate total	11,475	6,602	4,558
Annual production (mboe)			
Continuing operations	3,605	1,528	752
Discontinued operations	594	882	912
Corporate total	4,199	2,410	1,664

* Subsequent to year end, Centurion conditionally sold its Tunisian producing assets for $41.2 million plus working capital adjustments. Cash flow and earnings do not include the sales effect of 64,041 barrels of Tunisian oil that was inventoried at year end. If this inventory had been included in sales, cash flow would have increased by $2.3 million ($0.03 per share), and earnings would have increased by $1.6 million ($0.02 per share). The sale of the producing assets was effective January 1, 2005 and the incremental cash flow to Centurion of $2.3 million related to the crude oil inventory will be added as a purchase price adjustment upon closing of the sales agreement.

Note: Natural gas has been converted into barrels of oil equivalent at 6:1. Boes disclosed in this table may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mscf:1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Centurion also discloses certain financial information (cash flow and cash flow per share) in this disclosure that do not have any standardized meaning as prescribed by Canadian GAAP and are therefore considered non-GAAP measures. These measures may not be comparable to similar measures presented by other public issuers.

Proved plus Probable Reserves

	Tunisia		Egypt		Total	
Company Share of Gross Reserves	Proved	Proved + Probable	Proved	Proved + Probable	Proved	Proved + Probable
(mmboe)						
2004	3.41	5.89	28.07	45.46	31.48	51.35
2003	6.15	10.06	8.90	28.09	15.05	38.15
2002	7.65	11.66	9.59	26.65	17.24	38.31
2001	8.20	11.03	10.50	27.75	18.70	38.78

After subtracting production for the year, corporate reserves increased by 17.5 million boe (proved plus probable), replacing 2004 production by a factor of 4.2 times. This increase is mainly a result of the application of 3-D seismic and successful drilling results on the Company's Nile Delta lands.

Effect of Sale of Tunisian Producing Assets

As part of Centurion's focus on higher-impact exploration and development, the Company signed a conditional purchase and sales agreement with a Canadian private company on February 25, 2005 to sell all of its Tunisian producing assets for approximately $41.2 million plus working capital adjustments. The effective date of the purchase is January 1, 2005 with an anticipated closing of April 30, 2005.

As a result of this transaction, Centurion has presented all of the assets, liabilities, revenues and expenses associated with the operations included in the sale as discontinued operations for financial reporting purposes. Accordingly, the Management's Discussion and Analysis will be segregated between continuing operations (primarily Centurion's Egyptian operations) and discontinued operations (Tunisia). Any prior year comparative figures have been restated to give a meaningful comparison for the current year's activities.

Financial Review – Continuing Operations

Issues of Treasury Shares

Centurion issued treasury shares in October 2003 and August 2004. As a result, the weighted average number of common shares outstanding has increased 23 percent from 66,727,000 securities in 2003 to 82,090,000 securities in 2004. Accordingly, all per share amounts reported in 2004 have been reduced by 23 percent due to the increased shares issued in association with these financings.

Effect of Exchange Rate Fluctuations

Centurion's operations are conducted in geographic areas where the U.S. dollar is the functional business currency. All of Centurion's revenues are paid in U.S. funds and the majority of its operating expenses and capital expenditures are also U.S. dollar-based. As the Canadian dollar has strengthened considerably in 2004, all of Centurion's U.S. dollar-based revenues and expenses have translated into fewer equivalent Canadian dollars than the comparable translated amounts in 2003. There was an approximate 8 percent decrease in all U.S. dollar-based amounts being reported in Canadian dollars in 2004. Accordingly, earnings and cash flow for the year have been reduced by approximately $0.02 per share and $0.03 per share respectively, compared to what they would have been if the 2004 average exchange rate had remained the same as the average rate for 2003.

Revenue	2004	2003
Oil and gas sales (net of royalties) ($000s)	54,270	24,332
Average gross price realized before royalty ($ per boe)	23.87	26.53

During 2004, oil and gas sales (net of royalties) increased by $29,938,000 mainly due to increased sales volumes achieved at the El Wastani and South El Manzala fields in Egypt. Drilling successes and rapid completions and tie-ins at El Wastani -3 and Gelgel 2, 3, and 4 were the main contributors to this sales increase. Average daily production rates at the Hana field (Centurion 30 percent working interest) also increased in 2004.

The average price received for a barrel of oil equivalent was $23.87 compared to $26.53 in 2003 as there was a change in production mix towards natural gas in 2004 (85 percent) compared to 2003 (65 percent). Centurion's natural gas is sold at a ceiling price of US$2.65 per mmbtu (US$15.90 per boe) compared to oil production which averaged closer to US$40 per barrel in 2004. Foreign currency effects also resulted in an 8 percent decrease in 2004 price realizations.

Operating Expense	2004	2003
Operating expense ($000s)	5,472	3,930
$ per boe	1.51	2.57

Egyptian operating expense for 2004 amounted to $5,472,000 ($1.51 per boe) compared to $3,930,000 ($2.57 per boe) for 2003. Although the absolute dollars spent on operating costs increased by 39 percent compared to 2003, the cost per boe is down by 41 percent. In 2004, Centurion increased its Egyptian production by 136 percent; however, the majority of the operating costs associated with that production are fixed and resulted in no increase in operating expenses. Variable field costs associated with incremental production added in 2004 approximated US$0.07 per mscf (US$0.42 per boe) and are the main driver for decreasing overall per boe operating costs.

Netback

The netback on the Company's production for 2004 (net revenues less operating costs) was $48,798,000 ($13.55 per boe) compared to $20,402,000 ($13.36 per boe) for 2003. The slight increase in yearly netbacks per boe can be explained by revenue decreases related to a change in the production mix and foreign currency effects, which was more than offset by decreases in per boe operating costs. Each of these factors is described in more detail in the relevant discussions above.

Netback ($ per boe)	2004	2003
Revenue (net of royalty)	15.06	15.93
Operating expense	(1.51)	(2.57)
Netback	13.55	13.36

General and Administrative Expense ($000s except per boe amounts)	2004	2003
Total	5,585	3,568
Capitalized – continuing operations	(1,613)	(624)
Capitalized – discontinued operations	(919)	(493)
Expensed	3,053	2,451
Expensed per boe ($)	0.73	1.02

General and administrative expenses represent the costs associated with head office activities required to support the foreign operations, maintaining public listings on the Toronto Stock Exchange and AIM (London Stock Exchange) and managing investor relations. The increased general and administrative expense in 2004 is primarily a result of additional staff costs and travel expenditures related to performance of these functions. Costs capitalized during 2004 increased by $1,415,000. These costs relate to increasing head office activities directly related to drilling programs, facility development and other geo-technical exploration work.

Interest and Finance Costs

Interest and finance costs in 2004 totaled $992,000 compared to $892,000 for 2003, representing interest on Centurion's corporate bank loan with the Standard Bank London Ltd. and a capital lease with Northstar Trade Finance Ltd. in respect of compression facilities in Egypt. The increased expense in 2004 relates entirely to the interest associated with the capital lease.

Depreciation, Depletion and Amortization ($000s except per boe amounts)	2004	2003
Oil and gas depletion, depreciation and amortization	17,834	8,845
Per boe ($)	4.95	5.79
Other	643	385

The decrease in per barrel costs in 2004 compared to 2003 results from the exploration success at El Wastani-3 in June 2004 and foreign currency effects. The Egyptian depletion provision for 2004 amounted to $17,834,000 ($4.95 per boe) compared to $8,845,000 ($5.79 per boe) for 2003. Other depreciation relates to non-oil and gas assets.

Discontinued Operations

	2004 ($000s)	2004 ($ per boe)	2003 ($000s)	2003 ($ per boe)
Oil and gas sales (gross)	19,315	36.33	29,799	32.43
Royalties	1,535	2.89	2,404	2.62
Operating cost	5,155	9.69	6,992	7.61
Operating netbacks	12,625	23.75	20,403	22.20

Discontinued operations relate to the Tunisian producing assets conditionally sold to a Canadian private company effective January 1, 2005. These producing assets include El Biban, Ezzaouia, Al Manzah and Robbana production in addition to Centurion's 50 percent interest in the SEEB power plant.

Production from these discontinued assets decreased 33 percent from 882,000 boe in 2003 to 594,000 boe in 2004, which was the main reason for the decrease in sales. The average price received per barrel in 2004 improved due to rising crude oil prices; however, 28 percent of the 2004 production was subject to an oil price ceiling of US$24.80 per barrel. At December 31, 2004 the Company held 64,041 barrels of crude oil as inventory. This inventory has been recorded at the cost associated with the production of these volumes which totaled $1,252,000. Revenues arising from the sale of these barrels will be recorded in 2005 when the lifting occurs. Operating costs decreased by approximately $1.8 million related to decreased operations at Al Manzah and the operating costs inventoried in conjunction with the 64,041 barrels of 2004 production inventory.

Summary of Quarterly Results

($ millions, except per share amounts)	2004			
	Q1	Q2	Q3	Q4
Sales (net of royalties)				
Continuing operations	11.1	11.6	16.0	16.6
Discontinued operations	3.3	4.2	6.9	3.4
Corporate total	14.4	15.8	21.9	20.0
Cash flow				
Continuing operations	6.6	6.7	7.5	10.2
Discontinued operations	1.6	2.8	5.4	1.3
Corporate total	8.2	9.5	12.9	11.5
Basic per share – continuing operations	0.09	0.09	0.09	0.13
Diluted per share – continuing operations	0.08	0.09	0.09	0.12
Basic per share – corporate total	0.11	0.13	0.16	0.14
Diluted per share – corporate total	0.11	0.12	0.15	0.13
Earnings				
Continuing operations	2.2	2.1	1.9	4.1
Discontinued operations	(0.2)	1.5	2.0	(0.4)
Corporate total	2.0	3.6	3.9	3.7
Basic per share – continuing operations	0.03	0.03	0.02	0.05
Diluted per share – continuing operations	0.03	0.03	0.02	0.05
Basic per share – corporate total	0.03	0.05	0.05	0.04
Diluted per share – corporate total	0.03	0.04	0.05	0.04

($ millions, except per share amounts)	2003 Q1	Q2	Q3	Q4
Sales (net of royalties)				
Continuing operations	5.4	4.0	4.4	10.5
Discontinued operations	9.6	7.3	3.5	7.0
Corporate total	15.0	11.3	7.9	17.5
Cash flow				
Continuing operations	1.1	2.0	1.9	5.7
Discontinued operations	7.7	5.9	2.5	4.0
Corporate total	8.8	7.9	4.4	9.7
Basic per share – continuing operations	0.02	0.03	0.03	0.09
Diluted per share – continuing operations	0.01	0.03	0.03	0.09
Basic per share – corporate total	0.14	0.13	0.07	0.14
Diluted per share – corporate total	0.14	0.12	0.07	0.13
Earnings				
Continuing operations	(0.8)	(0.9)	(0.4)	2.6
Discontinued operations	4.9	3.1	1.1	1.0
Corporate total	4.1	2.2	0.7	3.6
Basic per share – continuing operations	(0.01)	(0.01)	(0.01)	0.04
Diluted per share – continuing operations	(0.01)	(0.01)	(0.01)	0.04
Basic per share – corporate total	0.06	0.04	0.01	0.06
Diluted per share – corporate total	0.06	0.04	0.01	0.05

Liquidity, Capital Resources and Capital Expenditures

Capital expenditures for 2004 totaled $31,183,000 including $30,810,000 spent in Egypt and $373,000 spent in Canada and elsewhere. The expenditures were a result of Centurion's Egyptian drilling and development program, including one exploration and four development wells drilled throughout the year. Other expenditures related to facility installations and other geological and geophysical programs.

Cash on hand at December 31, 2004 was $37,416,000 compared to $21,761,000 at December 31, 2003. Centurion had working capital of $51,580,000 at December 31, 2004 compared to working capital of $27,157,000 at December 31, 2003. Included in 2004 working capital are the current assets and liabilities of the discontinued operations amounting to $7,536,000 and $5,224,000 respectively. The discontinued working capital amounts will be included as a net purchase price adjustment in favour of Centurion in addition to the $41.2 million base purchase price negotiated for the Tunisian assets. The net proceeds on the sale of the discontinued operations will be used to fund 2005 exploration and development activities in Egypt.

In August 2004, Centurion issued 7,575,757 common shares at $3.30 per share as part of a private placement fundraising in Canada and the United Kingdom. Gross proceeds of the fundraising amounted to approximately $25 million which are being used to accelerate Centurion's 2004 and 2005 drilling program.

Subsequent to year end, Centurion completed a share offering in early January resulting in gross proceeds of approximately $40 million. This resulted in 88,040,218 shares being outstanding at March 1, 2005.

Centurion exited 2004 with cash on hand of $37.4 million, added $40 million of gross proceeds from the above-mentioned share offering in January 2005 and will receive $41.2 million plus working capital adjustments on closing the sale of its Tunisian properties. This strong cash position, augmented by 2005 cash flow from Egyptian operations, provides more than enough funding to meet projected 2005 capital expenditures.

In September 2004, the Company renegotiated its credit facility with the Standard Bank London Ltd. with an increase to US$40 million. The loan is a borrowing base facility and the borrowing base is determined by different weightings of proved producing and non-producing reserve values. The borrowing base at December 31, 2004 is US$20 million, of which US$10 million was drawn at December 31, 2004. Interest on this credit facility is LIBOR plus 3.5 percent, and principal payments are not required until 2006.

Summary of Contractual Obligations

	Debt Payments Due by Period ($000s)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Standard Bank Financing	12,023	–	–	12,023	–
Capital lease obligations*	2,664	531	1,207	926	–
Block 2 obligations**	2,405	–	2,405	–	–
West Manzala and West Qantara obligations***	16,265	–	16,265	–	–
Total contractual obligations	33,357	531	19,877	12,949	–

* A capital lease agreement with Northstar Trade Finance Ltd. for a sales leaseback arrangement of compression equipment previously purchased and installed at the Company's gas fields in Egypt was entered into in May 2004. The lease requires equal monthly payments of US$51,000 for five years. The lease arrangement results in an interest rate of approximately 8 percent.

** In November 2003, Centurion was awarded Block 2 located in Southern Egypt and committed to spend US$2 million in the first two-year exploration phase. Geological mapping has already been initiated on this block and a 2-D seismic reprocessing program is being prepared.

*** In May 2004, Centurion was awarded the West Manzala and West Qantara blocks, in the Nile Delta of Egypt. Centurion and its partner (Centurion – 75 percent working interest) have committed to spend US$18 million on the blocks during the first phase of exploration. A 2,000 square kilometre 3-D seismic program has been commenced on these lands at an estimated program cost of US$20 million, which will satisfy the commitment during the first phase of exploration. Centurion also plans to drill at least one exploration well on these lands in 2005 pending drilling rig availability.

Financial Instruments

Oil Price Collars

A requirement of the Standard Bank financing in 2002 was that the Company put a hedging arrangement in place to provide protection against low prices to ensure that the Company would have sufficient cash flow to meet its debt obligations to the bank. Accordingly, no-cost collars were entered into to ensure a floor price for specified quantities of oil production. The final oil price collar was settled in March 2004 for a loss of $1,215,000 (2003 – $1,727,000), and has been recorded as a reduction of oil and gas revenue in the discontinued operations. There are no further oil price collars outstanding at December 31, 2004.

Changes in Accounting Policies

Asset Retirement Obligations

Effective January 1, 2004, the Company has retroactively adopted the Asset Retirement Obligation method of accounting for future abandonment and site restoration liabilities for its properties. The effect of adopting this new method of accounting will have a negative effect on future earnings as additional depletion and accretion expenses will increase the Company's non-cash operating costs for financial reporting. Future cash flows from operations will not be affected by adopting the new method of accounting. At January 1, 2004, the following adjustments will be reflected in the Company's balance sheet as a result of retroactively adopting the new method of accounting.

Balance Sheet Account	Increase (Decrease) in $ millions
Capital assets – continuing operations	1.4
Capital assets – discontinued operations	(0.5)
Asset retirement obligation – continuing operations	1.7
Asset retirement obligation – discontinued operations	2.1
Provision for site restoration – discontinued operations	(1.1)
Retained earnings	(1.2)
Future tax asset – discontinued operations	0.9
Deferred credit – discontinued operations	0.3

Stock-Based Compensation

Effective January 1, 2003, the Company has chosen to prospectively adopt the fair value method of accounting for employee stock options. Compensation expense based on the fair value of the employee stock options is being recognized over the vesting period of the related options. In 2004, the Company recorded an expense of $1,683,000 (2003 – $653,000) related to options granted to employees during the year. The Company's future earnings will be reduced by expenses related to additional vesting of existing options and future options granted to employees.

Accounting Guideline 16 (Full Cost Accounting)

Effective January 1, 2004, the Company has adopted the Canadian Institute of Chartered Accountants Accounting Guideline 16 which revises the method in which the Company will calculate impairment on its oil and gas assets. At December 31, 2004 no impairment on Centurion's capital assets existed. The Company assesses capital asset impairment on an annual basis or when facts exist that indicate that an impairment test may be required.

Non-GAAP Disclosure

Centurion discloses certain financial information (cash flow and cash flow per share) that do not have any standardized meaning prescribed by Canadian GAAP and are therefore considered non-GAAP measures. These measures may not be comparable to similar measures presented by other public issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company's performance. Management utilizes cash flow as a key measure to assess the Company's ability to finance its operations and create shareholder value.

Critical Estimates

In reporting its financial and reserve information, the Company is required to use certain estimates. These estimates relate primarily to the future development costs associated with proved undeveloped reserves, reserve volumes, future production and revenues, and future costs associated with asset retirement obligations. The Company has all of its oil and gas reserves, future development costs and future cash flows from those reserves evaluated and reported on by independent petroleum reserve engineering consultants. The estimation of these amounts is a subjective process, based on engineering data, forecasted prices and production levels and the timing of expenditures. All of these estimates are subject to numerous uncertainties and various interpretations, and consequently will change over time to reflect updated information as it is received.

Business Risk Assessment

There are a number of inherent risks associated with oil and gas operations and development. Many of these risks are beyond the control of management. The following outlines some of the principal risks and their potential impact on the Company.

Foreign Investments

All of the Company's oil and gas operations and related assets are located outside Canada. These operations are subject to the risks associated with foreign investment including tax increases, royalty increases, renegotiations of contracts, currency exchange fluctuations and political uncertainty. Both jurisdictions in which the Company operates, Tunisia and Egypt, have well established fiscal regimes and there are some improved fiscal terms to encourage investment. Both countries are politically stable and generally have effective control over extremist groups. The U.S. dollar is the functional currency in both operating areas. Centurion is paid in U.S. dollars for the sale of its production.

As operations are primarily carried out in U.S. dollars, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian funds for reporting purposes. Based upon projected 2005 cash flow and a Canadian dollar exchange rate between US$0.80 and US$0.85, the effect of each $0.01 change in exchange rate is less than $0.01 per share diluted.

Commodity Prices

Centurion's oil and gas prices are affected by factors such as supply and demand, oil quality and transportation adjustments. During 2005, the Company expects to have oil, gas and natural gas liquids sales from only its Egyptian operations. Centurion's gas production from its Egyptian reserves has a sales contract with a selling price of US$2.65 per mmbtu when the Brent oil reference price is US$20.00 or greater. The contract also has a floor of US$1.50 per mmbtu when the Brent oil price is US$10 or lower with a sliding scale gas price for Brent oil reference prices between US$10 and US$20. Changes in the price for Brent crude oil over US$20 have no impact on cash flow for Egyptian gas production. Each US$1.00 change below US$20 has an impact of $0.015 per share on diluted cash flow per share until the floor price of US$10 is reached. Crude oil, condensate and natural gas liquids are priced on the open market and are quoted as a Brent oil-based reference commodity.

Competition

The oil and gas industry is highly competitive. The Company believes that it is well positioned in Egypt, both in terms of Company-owned infrastructure, excellent land base and significant level of reserves and activity, and can compete strongly with other companies operating there. In Tunisia, Centurion has retained its high-impact exploration plays and feels that its 10 years of experience in exploring in Tunisia allows the Company to compete on equal footing with other exploration companies.

Environment

The Company has an ongoing program to abandon and reclaim wells and facilities in accordance with government regulations. Centurion maintains adequate insurance for environmental risks.

Forward-Looking Statements

This Annual Report and Management Discussion and Analysis contains forward-looking statements. These statements relate to future events or Centurion's future performance. All statements other than statements of historical fact are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur.

Although Centurion believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Centurion cannot guarantee future results, levels of activity, performance, or achievements. Moreover, Centurion does not assume responsibility for the accuracy and completeness of the forward-looking statements.

Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. The forward-looking statements contained in this Annual Report and Management's Discussion and Analysis are expressly qualified by this cautionary statement. Centurion is not under any duty to update any of the forward-looking statements after the date of this Annual Report to conform such statements to actual results or to changes in Centurion's expectations.

Company Information

Centurion Energy International Inc. is a Calgary-based oil and gas exploration and development company engaged in the exploration, development and production of oil, natural gas and natural gas liquids in Egypt and Tunisia.

Additional information related to the Company, including the Company's Annual Information Form and Management Information Circular, are available at www.sedar.com.

Financial and Administration Departments
Seated Left to Right: Brian Waker, Barry Swan, Jacqueline Markel

Standing Left to Right: Elaine MacDonald, Colette Vasseur, Elena Tchaikovsky, Paul McDougall

Management's Report

The Management of Centurion Energy International Inc. is responsible for the integrity of its reported financial data. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements in accordance with generally accepted accounting principles in Canada. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures, and exercises its best judgement in order that such statements reflect fairly the consolidated financial position, results of operations and cash flows of Centurion. The financial information contained elsewhere in this report has been reviewed to ensure consistency with that in the Consolidated Financial Statements.

In order to gather and control financial data, Centurion has established accounting and reporting systems supported by internal controls. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the records are reliable for preparing consolidated financial statements and other data, and maintaining accountability for assets.

Said S. Arrata
President and Chief Executive Officer

B W Swan

Barry W. Swan
Senior Vice-President and Chief Financial Officer

March 17, 2005
Calgary, Alberta

Auditors' Report

To the Shareholders of Centurion Energy International Inc.

We have audited the consolidated balance sheets of Centurion Energy International Inc. as at December 31, 2004 and 2003 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 16, 2005

Consolidated Balance Sheets

	2004 ($)	2003 ($) (restated – notes 2 and 3)
Assets		
Current assets		
Cash	37,416	21,761
Accounts receivable	19,512	9,681
Deposits and prepaids	935	209
Assets of discontinued operations (note 3)	7,536	6,746
	65,399	38,397
Capital assets (note 5)	61,413	53,750
Assets of discontinued operations (note 3)	52,757	56,179
Deferred financing costs (note 8)	1,088	418
	180,657	148,744
Liabilities		
Current liabilities		
Accounts payable	8,064	4,633
Short-term portion of other long-term debt (note 7)	531	–
Liabilities of discontinued operations (note 3)	5,224	6,607
	13,819	11,240
Other long-term debt (note 7)	14,156	12,919
Asset retirement obligation (note 17)	2,018	1,679
Liabilities of discontinued operations (note 3)	18,561	19,079
	48,554	44,917
Shareholders' Equity		
Capital stock (note 9)	104,754	79,654
Contributed surplus (note 11)	3,168	1,676
Foreign currency translation adjustment of continuing operations (note 1(b))	(12,353)	(2,748)
Foreign currency translation adjustment of discontinued operations (note 3)	(8,764)	(6,653)
Retained earnings	45,298	31,898
	132,103	103,827
	180,657	148,744

Approved by the Board of Directors

***Said Arrata,** Director*

***Barry Swan,** Director*

Consolidated Statements of Income and Retained Earnings

	2004 ($)	2003 ($) (restated – notes 2 and 3)
Revenue		
Sales – net of royalties	54,270	24,332
Interest income and other	526	93
	54,796	24,425
Expenses		
Operating	5,472	3,930
Depletion, depreciation and amortization	18,477	9,230
General and administrative	3,053	2,451
AIM listing (note 9)	–	1,197
Foreign prospect review (note 13)	684	82
Stock option benefit (note 10)	1,683	653
Interest	892	892
Amortization of deferred financing costs	213	163
Foreign exchange loss	388	214
Accretion expense	151	150
	31,113	18,962
Income before income taxes	23,683	5,463
Current income taxes (note 12)	13,178	4,927
Income for the year from continuing operations	10,505	536
Income for the year from discontinued operations (note 3)	2,895	10,091
Income for the year	13,400	10,627
Retained earnings – Beginning of year	31,898	21,271
Retained earnings – End of year	45,298	31,898
Basic earnings per share from continuing operations (note 16)	0.13	0.01
Diluted earnings per share from continuing operations (note 16)	0.13	0.01
Basic earnings per share (notes 3 and 16)	0.17	0.17
Diluted earnings per share (notes 3 and 16)	0.16	0.16

Consolidated Statements of Cash Flows

	2004 ($)	2003 ($)
		(restated – notes 2 and 3)
Cash provided by (used in)		
Operating activities		
Income for the year from continuing operations	10,505	536
Adjustments for		
Depletion, depreciation and amortization	18,477	9,230
Stock option benefit	1,683	653
Amortization of deferred financing costs	213	163
Accretion expense	151	150
Funds from continuing operations	31,029	10,732
Funds from discountinued operations	11,036	20,063
	42,065	30,795
Change in continuing non-cash working capital items	(8,635)	(5,521)
Change in discontinued working capital items	(9,502)	249
	23,927	25,523
Investing activities		
Capital asset expenditures	(31,183)	(16,595)
Changes in continuing non-cash working capital items	1,510	112
Discontinued operations	(4,302)	(10,979)
	(33,975)	(27,462)
Financing activities		
Issue of capital stock	24,909	20,710
Net proceeds (repayments) of other long-term debt	2,855	(1,685)
Deferred financing costs	(883)	–
Discontinued operations	(1,134)	1,953
	25,747	20,978
Foreign currency translation	(44)	(570)
Increase in cash	15,655	18,469
Cash – Beginning of year	21,761	3,292
Cash – End of year	37,416	21,761

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars)

1. Summary of Accounting Policies

a) Consolidation

These financial statements include the accounts of Centurion Energy International Inc. (the "Company"); its wholly-owned subsidiaries: Ecumed Petroleum Grombalia, Ltd., Ecumed Petroleum Tunisia, Ltd., Ecumed Petroleum Zarzis, Ltd., Ecumed Petroleum Zarat, Centurion Kom Ombo Petroleum Ltd., Centurion Red Sea Petroleum Corporation, Eagle Holdings (Barbados) Limited, Centurion Petroleum Corporation, Espanada Resources Corporation, Duraham Petroleum Limited, 585877 Alberta Ltd., 585882 Alberta Ltd., GHP Exploration (West Gharib) Ltd. and GHP Exploration (Egypt) Ltd.; and the proportionate share of its 50 percent investment in Société d'Electricité d'El Biban ("SEEB").

b) Foreign currency translation

The Company operates in business environments where the US dollar and Tunisian Dinar are the functional currencies. Monetary assets and liabilities denominated in a currency other than the functional currency are revaluated at the balance sheet date, and any gains or losses arising on the revaluation are reflected in earnings.

The financial statements of operationally and financially independent foreign operations are translated into Canadian dollars from the functional currency using the current rate method. Under the current rate method of foreign currency translation, assets and liabilities are translated into Canadian dollars at period-end rates and income and expenses are translated into Canadian dollars at average rates in effect during the period. Exchange gains and losses on translation are reflected as a separate component of shareholders' equity.

c) Petroleum and natural gas properties and related depletion and amortization

The Company follows the full cost method of accounting, whereby all costs incurred in exploring for and developing oil and gas reserves are capitalized. Such expenditures include land acquisition costs, geological and geophysical expenses, carrying charges for unproved properties, costs of drilling both productive and non-productive wells, gathering and production facilities and general and administrative costs directly related to exploration and development activities. Capitalized costs are accumulated on a country-by-country basis and are depreciated and depleted using the unit-of- production method based upon estimated proved reserves. Natural gas reserves are converted to equivalent barrels of oil on the basis of their relative energy content (6 mscf equals 1 barrel). Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered impaired, the cost of the property or the amount of the impairment is added to all other capitalized costs subject to depreciation and depletion.

The Company calculates a ceiling test whereby the net capitalized costs of properties cannot exceed the sum of the undiscounted cash flows expected to result from the Company's proved reserves. Cash flows are calculated based on third- party quoted forward prices and adjusted for the Company's contract prices and quality differentials. If there is impairment, the magnitude of it would be calculated by comparing the carrying amount of property, plant and equipment to the estimated net present value of future cash flows from proved plus risked probable reserves. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as a permanent impairment and charged as additional depletion expense in the consolidated statements of income.

Sales of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized unless such adjustments would alter the rate of depletion and amortization by more than twenty percent.

d) Office furniture and equipment and related amortization

The Company provides for amortization on office furniture and equipment using the straight-line method at annual rates of 20–30 percent.

e) Joint ventures

Substantially all of the Company's exploration and operating activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

f) Asset retirement obligation

The fair value of estimated asset retirement obligations is recognized when identified and a reasonable estimate of fair value can be made. Asset retirement obligations include those legal obligations where the Company will be required to retire tangible long-lived assets such as producing well sites.

These obligations also include items for which the Company has made promissory estoppels. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows, are recognized as a change in the retirement obligation and the related asset retirement cost.

Asset retirement costs for natural gas and crude oil are amortized using the unit-of-production method. Amortization of asset retirement costs are included in depletion, depreciation and amortization. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in earnings. Actual expenditures incurred are charged against the accumulated obligation.

g) Revenue recognition

Revenues from the sale of oil and gas are recorded when title passes to the customer.

h) Earnings per share

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the year. Diluted per share information assumes exercise of in-the-money options and warrants at the beginning of the year or date of issue, if later. It is assumed that proceeds obtained upon exercise of options and warrants would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

i) Stock-based compensation plans

The Company has an incentive stock option plan which is described in note 10. Effective January 1, 2003, the Company has chosen to prospectively adopt the fair value method of accounting for employee stock options. Compensation expense based on the fair value of the employee stock options is being recognized over the vesting period of the related stock options. The calculation of this expense is described in note 10. Previously, no expense was recognized with respect to employee stock options. Stock options and warrants issued to non-employees are recorded at their fair market value at date of issuance.

j) Financial instruments

Canadian accounting standards require the disclosure of the fair value of financial assets and liabilities. The fair value of the Company's current financial assets and liabilities is considered to approximate book value due to their current nature, as does the long-term debt, which is at floating rates.

k) Measurement uncertainty

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and asset retirement obligation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, future oil and gas prices, future costs and other relevant assumptions.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

l) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted or substantially enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

In Egypt, the government receives production in lieu of income tax. The Company records this production as current income tax expense.

m) Comparative amounts

Certain comparative amounts have been reclassified to conform with the presentation format adopted in the current year.

2. Change in Accounting Policies

Full cost accounting

Effective January 1, 2004, the Company prospectively adopted the new Canadian Accounting Guideline #16, "Oil and Gas Accounting – Full Cost". The guideline modifies how the ceiling test is performed by requiring that a cost ceiling centre be tested for recoverability using undiscounted future cash flows determined using expected prices applied to proved reserves. When the carrying amount of a cost centre is not recoverable, the cost centre is written down to the fair value of proved and probable reserves plus the unimpaired cost of unproved property that does not contain probable reserves. This revised ceiling test would not have resulted in an impairment write-down as at January 1, 2004. An impairment test based on the provisions of the guideline was performed at December 31, 2004, resulting in no impairment of the Company's assets.

Asset retirement obligation

Effective January 1, 2004, the Company retroactively adopted a new Canadian accounting standard for asset retirement obligations. The standard requires that the fair value of an asset retirement obligation be recognized when a reasonable estimate of the fair value can be made. The present value of the obligation is capitalized as part of the carrying amount of the related asset. With the passage of time, accretion increases the carrying amount of the asset retirement obligation. Previously, the Company used the unit-of-production method to accrue retirement costs over the life of the related assets. The following table summarizes the effect of this change in accounting on the financial statements as at December 31, 2003:

Balance sheet effect	Increase (Decrease) $ millions
Capital assets – continuing operations	1.4
Capital assets – discontinued operations	(0.5)
Asset retirement obligation – continuing operations	1.7
Asset retirement obligation – discontinued operations	2.1
Provision for site restoration – discontinued operations	(1.1)
Retained earnings	(1.2)
Future tax asset – discontinued operations	0.9
Deferred credit – discontinued operations	0.3

3. Discontinued Operations and Assets Held for Sale

In late 2004, the Company evaluated its ongoing operations in Tunisia and decided to pursue the sale of its operating assets in the country. The assets for sale comprise all of the Company's Tunisian assets except its interest in the Mellita Permit and a reduced interest in the Ezzaouia and El Biban Triassic prospects. These assets have been classified as assets held for sale and are reflected as discontinued operations. Certain financial information has been reclassified in the prior period as discontinued operations.

Subsequent to year end, the Company entered into a conditional purchase and sale agreement (see note 19) for the sale of the discontinued operation. The sale will result in net proceeds of $41.2 million plus working capital adjustments, after the deduction of transaction costs. The estimated pre-tax gain on sale as at December 31, 2004 is $3 million subject to final purchase price adjustments and transaction costs. The sale is anticipated to close by April 30, 2005.

The purchaser has agreed to purchase the Company's 100 percent owned subsidiaries that operate in Tunisia, which own a 31.4 percent working interest in the Ezzaouia concession and the Ezzaouia oilfield; a 73.8 percent working interest in the El Biban concession and the El Biban oilfield; an 80 percent working interest in the Robbana concession and the Robbana oilfield; and a 75 percent working interest in the Al Manzah concession and the Al Manzah oilfield. Also included in the purchase is the 50 percent share ownership in the SEEB power plant.

Selected financial information for the operations included in discontinued operations is reported below:

Year ended December 31	**2004 ($)**	2003 ($)
Revenues	17,897	27,679
Income from discontinued operations before taxes	6,536	13,971
Income taxes	3,641	3,880
Income from discontinued operations	2,895	10,091

The major classes of assets and liabilities of discontinued operations are as follows:

Year ended December 31	**2004 ($)**	2003 ($)
Current assets	7,536	6,746
Capital assets	52,757	53,942
Future income tax asset (note 12)		2,237
	52,757	56,179
Current liabilities	5,224	6,607
Limited recourse long-term debt (note 6)	14,395	16,027
Deferred credit (note 13)		956
Asset retirement obligation	2,103	2,096
Future income tax liability (note 12)	2,063	–
	19,561	19,079
Foreign currency translation adjustment	(8,764)	(6,653)
Net assets of discontinued operations	45,272	43,892

4. Inventory – Discontinued Operations

The inventory of $1,252 as at December 31, 2004 (2003 – $35) represents approximately 64,041 barrels (2003 – 2,100 barrels) of produced crude oil that were not sold at year-end. The inventory value is calculated using the related production and depletion costs. This inventory relates to the Tunisian operations and is therefore part of the discontinued operations (see note 3).

5. Capital Assets

	2004		
	Cost ($)	Accumulated Amortization ($)	Net ($)
Petroleum and natural gas properties and production equipment	88,643	28,664	59,979
Office equipment	3,096	1,662	1,434
	91,739	30,326	61,413

	2003		
	Cost ($)	Accumulated Amortization ($)	Net ($)
Petroleum and natural gas properties and production equipment	63,394	10,936	52,458
Office equipment	2,447	1,155	1,292
	65,841	12,091	53,750

As at December 31, 2004, petroleum and natural gas properties include $7,070 (2003 – $3,242) in respect of unproved properties in Tunisia which have been excluded from depletion calculations.

Head office general and administrative costs capitalized during 2004 were $1,613 (2003 – $624).

The prices used in the ceiling test evaluation of the Company's crude oil and natural gas reserves at December 31, 2004 were:

	Natural Gas US$/mscf	Crude Oil and Natural Gas Liquids US$/barrel
2005	2.74	34.90
2006	2.76	31.47
2007	2.63	28.66
2008	2.63	27.74
2009	2.63	26.78
Average until 2019	2.63	26.93

6. Limited Recourse Long-Term Debt – Discontinued Operations

	Rate	2004 ($)	2003 ($)
Limited recourse SEEB debt			
Project financing	LIBOR + 2%	12,769	14,225
Due to Caterpillar Power Ventures Inc.	13%	3,012	3,237
		15,781	17,462
Amount due within one year		(1,386)	(1,435)
		14,395	16,027

Principal repayments due in the next five years are:

	$
2005	1,386
2006	1,386
2007	1,386
2008	1,386
2009	1,386

On March 18, 2002, Centurion and Caterpillar Power Ventures Inc. (Centurion's 50 percent partner in the SEEB power generation project) closed a US$20.2 million limited-recourse project financing, 50 percent of which was subsequently converted into Euros. The financing bears interest at LIBOR plus two percent for a 10 year term. Security for the financing is limited to the project assets and a corporate non-performance guarantee of US$750. Centurion's share of the project financing at December 31, 2004 is $12,769 (2003 – $14,225). All interest and principal payments will be repaid through operating cash flows of the SEEB power plant. The proceeds of this project financing have been used to fund construction costs of the SEEB plant which commenced operations May 9, 2003. Also included in the limited recourse SEEB debt is an amount of $3,012 (2003 – $3,237) (US$2,500) in respect of the Company's share of additional project financing provided by Caterpillar Power Ventures Inc. to complete the SEEB project. This additional financing bears interest at 13 percent, however there are no fixed repayment terms nor will the lender demand repayment in 2005. The Company currently plans to repay this debt with SEEB operating cash flows, yet does not anticipate this to occur within 2005. Accordingly, this additional financing has been classified as a long-term obligation. This debt is related to the Tunisian assets and is therefore disclosed as discontinued operations (see note 3).

7. Other Long-Term Debt

	Rate	2004 ($)	2003 ($)
Credit facility (US$10 million)	LIBOR + 3.5%	12,023	12,919
Capital lease obligation	7.5%	2,664	–
		14,687	12,919
Amount due within one year		531	–
		14,156	12,919

Credit facility

On February 18, 2002, Centurion arranged a US$30 million, four-year term debt facility with the Standard Bank London Ltd. In October 2004, this debt facility was renegotiated resulting in an increase in the debt facility to US$40 million and an additional four-year term. The loan is in the form of a Revolving Credit Facility which can be drawn down as required in accordance with certain borrowing criteria established by Standard Bank. This debt facility is secured by an assignment of all the shares of the operating legal entities.

Interest on the credit facility is payable quarterly at LIBOR plus 3.5 percent. Principal repayments are required when the Company's debt drawings exceed the allowable borrowing base provided for in the credit facility, or when three years of the four-year term have passed, quarterly principal repayments of US$5 million will be required to repay the borrowed amount. The allowable borrowing base is determined by projecting future cash flows of the Company based upon different weightings to proved producing, proved non-producing and probable reserves. The allowable borrowing base at December 31, 2004 approximated US$20 million resulting in a US$10 million excess over funds drawn under the credit facility at that time. The Company has projected the allowable borrowing base throughout 2005 and does not anticipate any deficiencies triggering a principal repayment during the year. Accordingly, no portion of the US$10 million credit facility drawn at December 31, 2004 has been classified as a current maturity.

Capital lease obligation

The capital lease obligation of $2,664 (2003 – $nil) represents a capital lease for compression facilities related to the Company's Egyptian operations. This debt is being repaid over a five-year term commencing May 2004 with a blended interest and principal payment of US$51 thousand per month. An amount of $531 has been included as a current portion of long-term debt.

8. Deferred Financing Costs

Deferred financing costs amounted to $1,088 as at December 31, 2004. These costs include $907 of legal and financing fees relating to the Standard Bank London Ltd. credit facility (see note 7). Deferred financing costs are being amortized over the term of the debt financing they relate to.

Also included are $181 relating to the capital lease arrangement with Northstar Trade Finance Ltd. (see note 7). These costs are being amortized over the life of the lease commencing May 2004.

9. Capital Stock

Authorized

Unlimited number of common shares

Unlimited number of preferred shares which may be issued in one or more series (none outstanding)

Issued and outstanding

	Number of Shares	Common Shares Stated Value ($)
Balance – December 31, 2002	62,312,987	58,888
Issued – Private placement (net of issue costs)	9,642,254	18,581
Issued on exercise of warrants	1,704,546	2,045
Issued on exercise of options	1,177,499	609
Buyback pursuant to share repurchase plan	(485,300)	(469)
Adjustment for rounding of fractional shares	(859)	–
Balance – December 31, 2003	74,351,127	79,654
Issued – Private placement (net of issue costs)	7,575,757	23,423
Issued on exercise of warrants	200,000	190
Issued on exercise of options	1,929,100	1,487
Balance at December 31, 2004	84,055,984	104,754

In June 2003, the Company undertook a listing on the Alternative Investment Market ("AIM") of the London Stock Exchange. Subsequently, in October 2003, the Company closed a joint United Kingdom and Canadian private placement financing of 9,642,254 common shares at $2.05 per share. Net proceeds of the private placement were $18,581 after deducting the associated financing fees.

On February 12, 2003, the Normal Course Issuer Bid was renewed. In 2003, under the terms of this renewed bid, the Company repurchased 485,300 common shares at an average cost of $1.08 per share. The excess paid for common share repurchases above net book value has been debited to contributed surplus (note 11). The Normal Course Issuer Bid expired and has not been renewed. No further common shares were repurchased prior to its expiration.

On August 25, 2004, the Company successfully completed a $20 million underwritten financing consisting of the placement of 6,060,606 common shares at $3.30 per share. Additionally, 1,515,151 new common shares ("the UK shares") have been placed with UK investors at a price of $3.30 each, resulting in gross proceeds to the Company of approximately $5 million. Net proceeds of the public offering were $23.4 million.

Share purchase warrants	Number of Warrants	Weighted Average Exercise Price per Warrant ($)
Balance – December 31, 2002	1,904,546	1.14
Exercised during 2003	(1,704,546)	1.20
Balance – December 31, 2003	200,000	0.60
Exercised during 2004	(200,000)	0.60
Balance – December 31, 2004	–	–

In the year ended December 31, 2003, 1,704,546 warrants were exercised and converted to common shares of the Company at $1.20 per share.

In May 2004, 200,000 warrants were exercised and converted to common shares of the Company at $0.60 per share. These warrants were issued in connection with a Standard Bank credit facility in 2002.

10. Incentive Share Option Plan

The Company has a share option plan (the "Plan") for directors, officers and employees of the Company and its subsidiaries. The Plan provides that the aggregate number of common shares which may be reserved for issuance shall not exceed 13,000,000 common shares and that the aggregate number of common shares which may be reserved for issuance to any one individual shall not exceed 5 percent of the outstanding shares. The Plan is administered by the Board of Directors. The exercise price of the common shares covered by the issued stock options is determined by the directors but cannot be less than the trading price the day before the options are granted. The exercise period of the options is fixed by the Board of Directors and is not to exceed the maximum period permitted by the Toronto Stock Exchange. Vesting rights are determined at the discretion of the Board of Directors.

The following is a summary of changes in outstanding stock options for the years ended December 31, 2004 and 2003:

	2004			2003
	Share Options	Weighted-Average Exercise Price ($)	Share Options	Weighted-Average Exercise Price ($)
Outstanding –				
Beginning of year	6,098,334	0.80	6,100,833	0.58
Granted	1,845,000	3.62	1,200,000	1.63
Exercised	(1,929,100)	0.71	(1,177,499)	0.52
Forfeited	–	–	(25,000)	0.55
Outstanding –				
End of year	6,014,234	1.69	6,098,334	0.80
Options exercisable –				
End of year	5,334,233	1.47	4,853,612	0.68

The following table summarizes information about stock options outstanding at December 31, 2004:

	Options Outstanding		Options Exercisable	
Exercise Price	Options Outstanding	Weighted-Average Remaining Contractual Life in Years	Options Exercisable	Weighted-Average Remaining Contractual Life in Years
0.46	455,000	1.7	455,000	1.7
0.58	210,000	0.3	210,000	0.3
0.84	200,000	0.9	200,000	0.9
0.60	2,265,000	2.6	2,265,000	2.6
1.63	1,079,234	3.7	929,233	3.7
3.05	150,000	4.3	43,333	4.3
3.40	1,580,000	4.7	1,206,667	4.7
9.47	75,000	4.9	25,000	4.9
	6,014,234		5,334,233	

Effective January 1, 2003, the Company adopted the fair value method of accounting for employee stock options. An expense has been recorded in the amount of $1,683 in relation to options granted to employees in 2004 (2003 – $653). The average estimated fair value of $1.10 (2003 – $0.67) per option, which is being amortized over the vesting period, has been determined using a modified Black-Scholes option pricing model with the following assumptions:

	2004	2003
Average risk free rate	4.03%	3.83%
Average expected life	3 years	3 years
Average estimated volatility in the market price of common shares	40%	56%
Average dividend rate	nil %	nil %

No expense has been recorded for options granted prior to January 1, 2003. Had compensation expense been recognized based on the fair value method for options granted prior to January 1, 2003, an additional $173 (2003 – $300) would have been recorded as stock option expense.

11. Contributed Surplus

	$
Balance – December 31, 2002	1,079
Employee stock option benefit	653
Common shares repurchased at a premium to carrying value	(56)
Balance – December 31, 2003	1,676
Employee stock option benefit	1,683
Stock option benefit associated with exercised options and share purchase warrants	(191)
Balance – December 31, 2004	3,168

12. Income Taxes

The difference between the income tax provision recorded and the provision obtained by applying the combined federal and provincial statutory rates is as follows:

	2004 ($)	2003 ($)
Income before income taxes from continuing operations	23,683	5,463
Canadian corporate tax rate	39.1%	40.8%
Calculated income tax provision	9,260	2,229
Effect on taxes from		
Foreign tax rate differential	932	148
Expenses incurred with no recognized tax benefit	2,986	2,550
	13,178	4,927

The Company has Canadian loss carryforwards of approximately $18 million as at December 31, 2004. A future tax asset of $7 million, net of a valuation allowance of $7 million has been recorded relating to these losses.

The future tax liability of $2,063 at December 31, 2004 (2003 – future tax asset of $1,388) included in discontinued operations (see note 3) relates to the difference in the unclaimed tax deductible costs of capital assets in Tunisia and the related net book carrying value. The future tax asset of $1,388 as at December 31, 2003 is net of a valuation allowance of approximately $8 million. This allowance relates to the tax deductible cost related to various properties for which there were insufficient proved reserves to support the recording of a future tax asset.

The deferred credit of $nil at December 31, 2004 (2003 – $594) included in discontinued operations (see note 3) arose on the purchase of the Tunisian oil and gas properties in 1996 for cash consideration of $11 million and represents the excess of the future tax assets and other net assets acquired as compared to the purchase consideration. The deferred credit was amortized in proportion to the realization of the future tax asset.

13. Foreign Prospect Review

Costs associated with the evaluation of oil and gas opportunities outside of Tunisia and Egypt are expensed as incurred. Should the Company successfully obtain new exploration or development permits in countries of business other than Tunisia and Egypt, all future costs associated with developing or exploring for oil and gas reserves in these new countries will be accounted for under the full cost method of accounting (note 1(c)).

The foreign prospect review costs of $684 in 2004 (2003 – $82) represent travel and geological evaluation costs related to opportunities outside of our core areas of operations in Tunisia and Egypt. The recovery of costs in 2003 results from cost sharing refunds paid to the Company by potential partners in these opportunities.

14. Segmented Information

The Company has defined its continuing operations as oil and gas operations. The majority of the Company's oil and gas operations are located in Egypt. Certain exploration activities continue in Tunisia and other locations in Africa.

Operations that have been discontinued are disclosed in note 3.

Geographic Segments	Egypt ($)	Tunisia ($)	Canada and Other ($)	Total ($)
December 31, 2004				
Revenue	54,285	–	511	54,796
Capital assets	53,062	7,070	1,281	61,413
Capital expenditures	30,811	–	372	31,183
December 31, 2003				
Revenue	24,332	–	93	24,425
Capital assets	44,697	7,790	1,263	53,750
Capital expenditures	15,492	–	1,103	16,595

15. Supplemental Cash Flow Information

Cash taxes and interest

	2004 ($)	2003 ($)
Cash taxes paid	13,178	4,927
Cash interest paid	992	892
Cash interest received	490	109

16. Earnings per Share

The following table summarizes the weighted average common shares and dilutive securities used in calculating basic and diluted net earnings per common share.

	2004	2003
Weighted average number of common shares (thousands)	78,052	64,240
Dilutive securities – warrants and options (thousands)	4,038	2,487
	82,090	66,727

17. Asset Retirement Obligation

	2004 ($)	2003 ($)
Asset retirement obligation – Beginning of year	1,679	1,848
Additions	310	–
Accretion expense	151	150
Foreign exchange	(122)	(319)
Asset retirement obligation – End of year	2,018	1,679

The total undiscounted amount of estimated cash flows required to settle the obligation is $3,255 (2003 – $2,724), which has been discounted using a credit adjusted risk-free rate of 9 percent (2003 – 9 percent). Most of these obligations are not expected to be paid until 2011.

18. Contingencies

The Company is involved in various legal claims associated with the normal course of operations. The Company believes it has made adequate provision for such legal claims.

19. Subsequent Event

In January 2005, the Company closed a short-form prospectus offering of 2,975,000 common shares at an issue price of $13.25 per share for gross proceeds of $39,419 before expenses and underwriters fees. The proceeds of the financing will be used to expand the 2005 Egyptian drilling program.

On February 25, 2005, the Company entered into an agreement with an unrelated private company for the sale of the Company's Tunisian producing properties for a purchase price of $41.2 million plus working capital adjustments effective January 1, 2005. The sale is anticipated to close by April 30, 2005, subject to certain conditions, including successful purchaser financing and the receipt of various third-party and government consents.

The Company's ownership in the Mellita Permit in Tunisia and the accompanying PetroCanada farm-out are not included in the sale of the Tunisian assets. Additionally, the Company retains the right to participate for up to 50 percent of the purchaser's resulting working interest in any Triassic exploration well drilled at either or both of the Ezzaouia and El Biban concessions.

20. Summary of Differences Between Canadian GAAP and International Accounting Standards

The Company's financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP), which differ in certain respects from those in International Accounting Standards ("IAS"). Set out on the next page is a brief description of those differences between Canadian GAAP and International accounting standards which would have a significant impact on the amounts shown in the Canadian GAAP financial statements.

Negative goodwill

On the purchase of certain Tunisian assets, the Company acquired significant unutilized tax losses which, when recognized at their fair value as a deferred tax asset, gave rise to negative goodwill. Under Canadian GAAP, rather than recognize negative goodwill as a separate component of the balance sheet, companies are required to write down the value of the non-monetary assets acquired by an equivalent amount. To the extent that this negative goodwill exceeded the value of the non-monetary assets acquired, a deferred credit was recognized within long-term liabilities.

Under IAS, negative goodwill is not offset against non-monetary assets, but is recognized as a separate "negative asset" alongside positive goodwill. It is amortized in line with the assets to which it relates. To the extent that negative goodwill exceeds the fair value of non-monetary assets, that portion is recognized in the income statement immediately.

The impact on the income statement of adopting IAS would be to recognize this excess negative goodwill as income immediately on acquisition. Under Canadian GAAP this income is being systematically recognized in the income statement in line with the amortization of the deferred tax asset to which it relates.

Full cost accounting

The Company has adopted the full cost accounting method in respect of the treatment of its oil and gas capital assets. This method of accounting for oil and gas assets is an acceptable treatment under Canadian GAAP. However, the treatment is not specifically addressed under IAS.

In the event that the Company was required to restate its profit and loss account using the "successful efforts" method of accounting for oil and gas capital assets the impact would be to increase the volatility in the Company's profit during the period as certain wells drilled during the period would have been required to be written off to the profit and loss account rather than capitalized. In addition, certain overhead costs which were also capitalized at that time would similarly have to have been written off in the year those costs were incurred.

The exact impact on the Company's accounts is dependent upon several factors, including whether wells drilled are a delineation of an existing field which can be capitalized or exploratory in nature. The latter are required to be written off if those wells are dry or it is not commercially viable to extract the hydrocarbons from the well. In addition, as discussed above, any overheads capitalized relating to those wells will be required to be written off. The additional costs incurred during the period would to some extent be offset by a reduction in the level of depletion charged.

Centurion Board of Directors

Said S. Arrata
President and Chief Executive Officer
Centurion Energy International Inc.

Mr. Said Arrata, P.Eng., serves as the President and Chief Executive Officer of Centurion Energy and is a member of the Board of Directors of the corporation. He holds a B.Sc. degree in Petroleum Engineering and has accumulated several post-graduate accreditations at various universities as well as numerous oil and gas industry technical and management courses. During more than thirty-five years of experience in the oil and gas industry in design, project management, production and drilling engineering, Mr. Arrata has held management positions with major oil companies in Canada and overseas. He was co-founder of a major contracting engineering firm operating in Canada and internationally for nearly two decades. He holds a directorship position in three other companies and is an active member of several professional engineering and industry associations as well a Board member of United Way and the Calgary Philharmonic.

Barry W. Swan
Senior Vice-President and
Chief Financial Officer

Mr. Barry Swan serves as Senior Vice President and Chief Financial Officer of Centurion Energy International Inc., and is a member of the Board of Directors of the corporation. Mr. Swan earned his designation as a chartered accountant in 1971. During his professional and entrepreneurial career, spanning 34 years, he has held key positions with energy companies in North America with operations in the North Sea, Argentina, Bolivia, Peru, Indonesia, Yemen, Canada, USA, Tunisia, and Egypt. Mr. Swan was one of the founders of the Sunlite Oil Company, and Boss Energy Ltd., both of which were merged into Canadian Leader Energy Inc. and eventually merged to form Centurion Energy. Mr. Swan currently oversees all of Centurion's accounting, reporting and financing activities and is a member of the Institute of Chartered Accountants of Alberta.

Robert C. Cook
Vice President,
ARC Financial Corporation

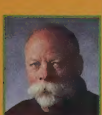
Mr. Cook has been with ARC since 2000 and previously spent 12 years as a reservoir engineer and field development team leader for a multi-national oil company with assignments in Canada, Europe, Africa and the Middle East. He is a member of ARC's Exploration and Production group and his primary focus is on the development and completion of new investment opportunities. He also works closely with portfolio companies, primarily with respect to progress monitoring and corporate strategy. He is a director of Centurion Energy International Inc. (TSE – CUX), Find Energy Ltd. (TSE – FE), Relentless Energy Corporation (Private) and Milestone Exploration Inc. (Private).

Derrick R. Armstrong
Partner,
Borden Ladner Gervais LLP

Mr. Armstrong is a partner with Borden Ladner Gervais LLP, and is Regional Head of the firm's Securities and Capital Markets Group in Calgary and a member of its National Securities and Capital Markets Group. He has practiced securities and corporate law in Calgary since 1980. Mr. Armstrong has served on the Legal Advisory Committee to the Alberta Securities Commission and the TSX Venture Exchange and is currently a member of the Advisory Board of the TSX Venture Exchange, and serves as chairman of the Exchange's Alberta local policy group.

Gary V. Awad
Chairman and Managing
Principal, ThreeG Capital
Senior Advisor to Delta Oil Company

Mr. Awad is Chairman and Managing Principal of ThreeG Capital, a privately held equity investment and venture capital company. He is also Senior Advisor to Delta Oil Company, a privately owned Saudi-based international petroleum company. Previously, Mr. Awad completed a thirty-year career with Unocal Corporation as Executive Vice President of Unocal International Energy Ventures, Ltd., which focused on securing energy projects outside North America. Mr. Awad is a director of MetaMatrix Corporation, a B2B infrastructure software company, EHD Technology, Inc., and the Cedarland International Development Group (CIDG, Inc.). He is also a member of the Pasadena Angels, a venture capital organization which invests in early stage companies in the Southern California area, the National Association of Corporate Directors (NACD), and the Board of Governors of the Reed Institute.



Michael J. Miller
Chairman, Safety Boss
International Ltd.

Mr. Miller has 33 years experience as supervisor on more than 400 well control and firefighting operations, onshore and offshore throughout the world. Prior to rejoining Safety Boss in 1979, Mr. Miller supervised drilling and completion operations in several different countries. Mr. Miller acted as the Safety Boss Project Manager for the Kuwait Fires Project where the company successfully capped 180 wells in 200 days. Mr. Miller was awarded the Emir's Star of Kuwait. He was appointed as a member of the Order of Canada in 1994 and he received an honorary doctorate from Athabasca University in 1994. Mr. Miller was inducted into the Canadian Petroleum Hall of Fame in 2002.

Corporate Information

Officers and Key Personnel

Said S. Arrata, P.Eng.
President and Chief Executive Officer

Barry W. Swan, C.A.
Senior Vice-President and
Chief Financial Officer

Tony Anton, P.Eng.
Senior Vice-President and
Chief Operating Officer

Mike N. Zayat
Vice-President,
Exploration and Business Development

Paul McDougall, C.A.
Controller

Dr. Hany Elsharkawi, P.Eng.
President and General Manager,
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Directors

Said S. Arrata
President and Chief Executive Officer
Centurion Energy International Inc.

Barry W. Swan
Senior Vice-President and
Chief Financial Officer

Robert C. Cook
Vice President,
ARC Financial Corporation

Derrick R. Armstrong
Partner,
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Gary V. Awad
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Ecumed Petroleum Corporation
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les Berges du Lac
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North Africa

Terms and Abbreviations

AIT	after income taxes
bcf	billion cubic feet
boe	barrels of oil equivalent (1 boe = 6 mscf)
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
bpd	barrels per day
Centurion	Centurion Energy International Inc.
mboe	thousand barrels of oil equivalent
mbtu	thousand standard British thermal units
mscf	thousand standard cubic feet
mm	millions
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmbtu	millions of British thermal units
mmscf	million standard cubic feet
mmscf/d	million standard cubic feet per day
mmstb	millions of stock tank barrels
NPVAIT	net present value after income tax
ppm	parts per million
tcf	trillion cubic feet
WTI	West Texas Intermediate
2-D	two-dimensional seismic survey
3-D	three-dimensional seismic survey

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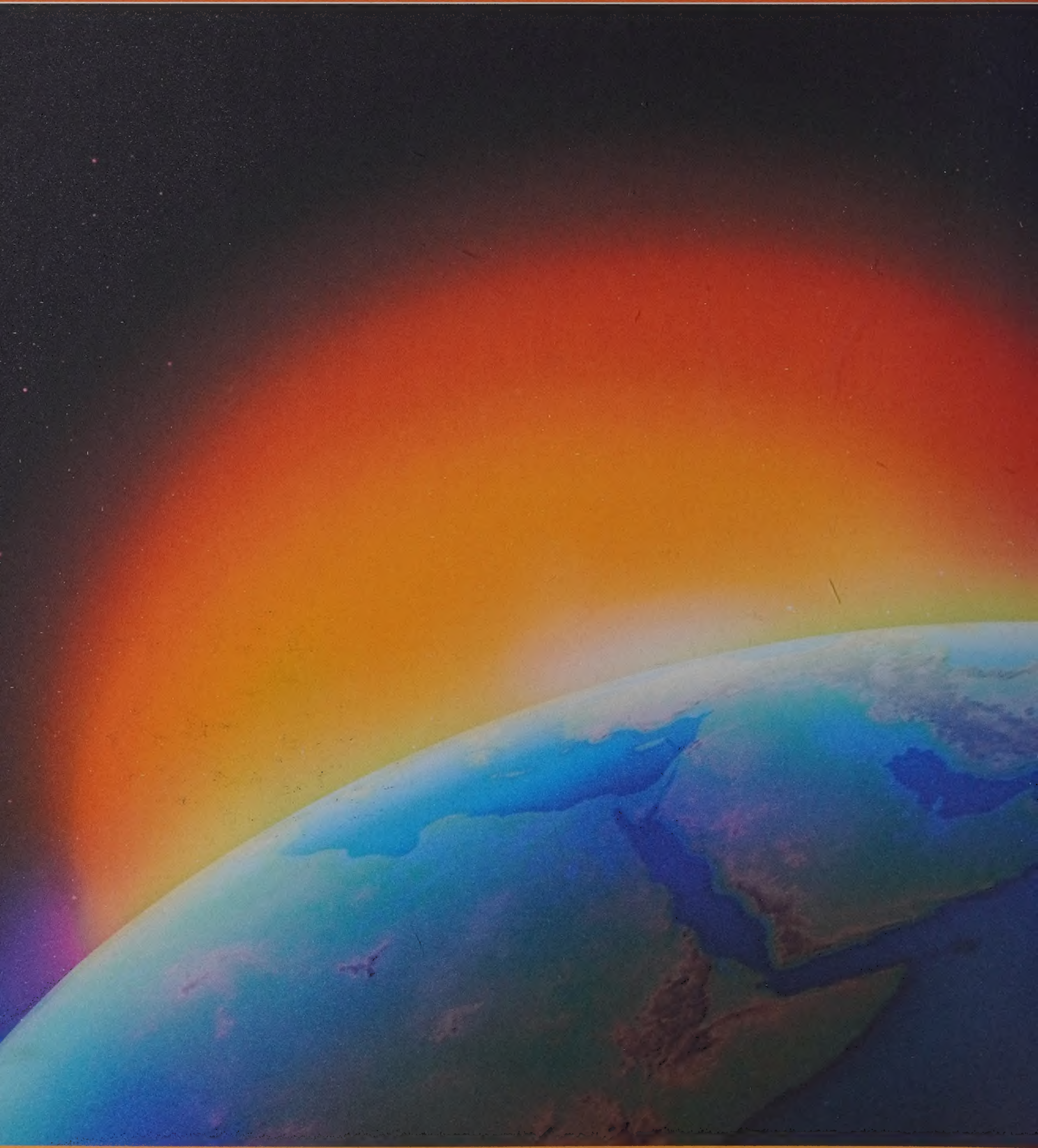

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